Do the interests of labor union and public pension fund activists align with other shareholders'? Evidence from the market for directors

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Abstract

The motivation and impact of union and public pension fund activism is widely debated. We provide evidence on this by examining directors' responses to non-binding shareholder proposals that garner a majority of votes, and the subsequent consequences in the labor market for directorships. Our results indicate that the interests of union fund activists who also represent employee stakeholders are not aligned with other shareholders. Directors are more likely to comply with union requests at unionized firms, but this damages their reputation as monitors. We find no evidence to support the criticism that public fund activism is politically motivated or 'labor-friendly'.

1. Introduction

Shareholder activism by labor union pension funds and public pension funds has increasingly gained the attention of corporate boards of directors, policymakers, and academics alike. Two reasons likely underlie this attention. First, is their economic importance given their sheer size and the fact that they represent the retirement assets of millions of beneficiaries who rely on the prudent investment of those assets for their future security and well-being.[1] Second, union and public pension funds are by far the most prolific institutional investors employing "low-cost" activism strategies, such as sponsoring shareholder proposals and 'just vote no' campaigns.[2] Renneboog and Szilagyi (2010) report that these two investor types sponsored 38% of all Rule 14a-8 shareholder proposals in the 1996 to 2005 period, while Georgeson (2012) reports that they sponsored 47.2% of shareholder proposals in the 2012 proxy season. Their activism has extended to lobbying Congress and the SEC for controversial corporate reforms, most recently on the "Say-on-Pay" reform mandating shareholder votes on executive compensation and on fundamental changes to the director nomination and election process ("proxy access").

The dominance of labor union pension funds and public pension funds among shareholder activists has been highly controversial and has led to much speculation as to their true motives. Critics argue that public pension fund activism is politically motivated, with pension officials more concerned with generating private benefits and publicity for themselves, perhaps for a future political campaign or consulting career, than with maximizing shareholder wealth (Romano, 1993, 2001; Woidtke, 2002; Sharfman, 2012). Similarly, union pension funds are often accused of using the shareholder activist platform as leverage toward gaining concessions from firms on behalf of their unionized employee members (Bainbridge, 2006; Anabtawi and Stout, 2008; Grundfest, 2010). In fact, these arguments

[1] According to the U.S. Census Bureau, the 100 largest public pension funds have $2.7 trillion in assets as of March 2011, including $896 billion in domestic equities. According to the Department of Labor, collectively bargained pension plans have $1.4 trillion in assets as of 2008 (Private Pension Plan Bulletin, 2010).

[2] In contrast, hedge fund activism tends to employ costly tools, such as launching proxy contests and amassing large ownership stakes. See Brav, Jiang, and Kim (2010) for a survey of this literature. For a survey of research on the effects of "low-cost" activism, see Ferri (2012).

appeared in the official ruling by the United States Court of Appeals as one of the justifications to overturn the SEC's "proxy access" Rule 14a-11 in July 2011. Specifically, the ruling criticized the SEC for not providing a serious evaluation of the "costs that could be imposed upon companies from use of the rule by shareholders representing special interests, particularly union and government pension funds."[3] Similar to the Court of Appeals, academics and practitioners commonly characterize both types as sharing similar 'labor-friendly' interests (e.g., Kahan and Rock, 2007; Cohn et al., 2012; proxymonitor.org). In short, critics contend that shareholder activism by both union and public pension fund officials serve their own private interests rather than the interests of their fellow shareholders.

An alternative view is that union and public pension funds are vocal shareholder advocates because they are the only type of investor with the incentive to actively monitor corporate management. Individual investors who own a small amount of stock have an incentive to free-ride on the monitoring of others, and other institutional investor types such as banks, insurance companies, and mutual funds avoid confrontations with corporate management in order to secure future business with the firm (Brickley, Lease, and Smith, 1988). For example, a mutual fund manager who wants to be chosen to manage a company's 401k plan and collect the requisite fees for this service may avoid openly criticizing management (Davis and Kim, 2007; Ashraf et al., 2012). Self-serving corporate managers are natural opponents to giving shareholders more power, and therefore have an incentive to discredit shareholder activists and publicly question their motives. Under this view, union and public pension funds are the only large shareholders sufficiently independent of the influence of corporate management to properly monitor them.

A final possibility is that these two types of activists have inherently different incentives and motives underlying their activism, and consequently have different effects on target firms. For

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

example, although both types represent pension beneficiaries that are typically union members, only labor union pension funds represent workers in the private sector. Thus, a public pension fund might favor a value-enhancing restructuring at a portfolio firm despite large employee layoffs, as it increases pension asset value but does not harm their public-sector worker members (Jacoby, 2008).[4]

It is empirically difficult to establish which view of union and public pension fund activism is more accurate, because it is inherently difficult to infer an agent's motivation. Attempts to do so in the literature have resulted in mixed evidence. Because public pension funds have been prominent activists since the 1980s, their activity has been most widely studied. Studies surveyed by Black (1997), Gillan and Starks (1998, 2007), Karpoff (2001), and Romano (2001) generally failed to find measurable valuation effects on target firms or on activist portfolios, which some interpret as due to poor activist incentives. Romano (1993) and Woidtke (2002) provide indirect evidence consistent with political motivations of public pension fund activism. In contrast, Del Guercio, Seery, and Woidtke (2008) find that activist targeting in the form of 'just vote no' campaigns is effective in compelling boards to fire underperforming CEOs and improve operating performance, and that this also holds for the sub-sample of firms targeted by public pension funds.

The evidence on union pension fund motives is also decidedly mixed. Renneboog and Szilagyi (2010) and Ertimur, Ferri, and Muslu (2011) conclude that the targeting decisions of union pension funds do not appear to be motivated by union employee interests. In particular, Ertimur, Ferri, and Muslu (2011) find that union pension funds are not more likely to target unionized firms. Furthermore, Cunat et al. (2012) estimate that boards that implement governance shareholder proposals increase value by 2.8% using a regression discontinuity methodology, and they find the effect is more positive for institutional proposal sponsors (primarily labor union and public pension funds). In contrast,

[4] In the case of a private sector pension fund, there is a tradeoff between the value of the equity position in the firm and the value of the fixed claim of employees in the form of wages and benefits. Examining 5% or larger blocks of employee ownership, Faleye et al. (2006) show that the effect of the fixed claim component dominates and higher employee ownership is more aligned with the fixed claimants of the firm rather than with shareholders.

Agrawal (2012) finds evidence that union pension funds tend to vote against directors primarily in firms that employ their union members, especially during times of bargaining disputes. Further, he finds that union workers benefit in that there are fewer future labor-management disputes at these firms after substantial withhold votes for directors. Finally, Cai and Walkling (2011) find that the stock price reaction is significantly negative at the announcement of union pension fund-sponsored Say-on-Pay shareholder proposals and significantly positive when these proposals are defeated with low vote support, suggesting that implementing these proposals are not in the best interests of shareholders.

In this paper, we argue that tests common in the literature on the labor market for directors can reveal new evidence on activist motives. Specifically, there is a growing body of empirical evidence that directors are rewarded in the labor market for their services when taking actions consistent with shareholders' interests and punished when taking actions inconsistent with shareholders' interests. Rewards and punishments are measured by the change in the number of public company directorships a director accrues, as additional directorships provide additional director compensation, prestige, and social standing (Fama, 1980; Grundfest, 1993; Dyck and Zingales, 2002). The previous literature consistently shows that the labor market for directorships is discriminating, such that only directors with shareholders' best interests in mind tend to be invited to serve on additional boards (Gilson, 1990; Kaplan and Rieshus, 1990; Coles and Hoi, 2003; Harford, 2003; Yermack, 2004; Srinivasan, 2005; Fich and Shivdasani, 2007; Fos and Tsoutsoura, 2013; Bereskin and Smith, 2014).

We rely on the consistent finding from the literature, that the labor market for directors ultimately reveals which directors are truly acting in shareholders' interests and which are not, to infer the motivations of activist investor types. Directors acting in shareholders' interests will comply with legitimate activist demands and ignore any self-serving ones (requests that benefit the activist shareholder at the expense of the firm's other shareholders). Thus, we should observe that directors complying with legitimate activist requests will gain directorships, while directors complying with self-serving activist requests will suffer a loss.

To test this we use a sample of shareholder proposals that receive support from a majority of votes cast. These proposals typically request that the board implement a governance change, such as putting the poison pill to a shareholder vote or de-staggering the board and switching to annual elections for board seats, but some request executive compensation-related changes. Because Rule 14a-8 shareholder proposals are legally non-binding, the board of directors must decide whether to implement the proposal once the vote outcome is revealed. Thus, we can observe whether the board ignores or complies with the activist's request. While boards' failure to implement shareholder proposals receiving a majority of vote support has been heavily criticized by investor groups, such as the Council of Institutional Investors, state law requires that directors alone have the fiduciary duty to use their judgment and potentially superior information to decide which governance structures are in the best interests of all shareholders.

We examine a comprehensive sample of shareholder proposals that receive a majority of vote support from 1996 to 2004. We find that even though majority vote proposals sponsored by union funds receive significantly less vote support than those sponsored by other sponsor types, they enjoy a significantly higher rate of compliance from directors than other sponsors (21.4% vs. 15.9%). We find that the higher compliance rate for union fund targets is driven by the sub-sample of unionized firms (29.4%), especially those where the proposal sponsor also negotiates collective bargaining agreements on behalf of the firm's employees (30.7%), and at firms experiencing contentious management-union relations in the year prior to the annual meeting (42.1%). Furthermore, using a union relations score available annually from the KLD SOCRATES database, we find that firms with boards who comply with union activist requests experience improving union relations on average, especially in comparison with those firms that ignore union activist requests.

We find consistent evidence from both the labor market for directors and the stock market suggesting that unionized employees gain from improved union relations at the expense of shareholders. At unionized firms, directors who comply with the requests of union funds experience a significantly greater net loss in external board seats than either directors who ignore these activists, or directors who comply with the requests of other activist types. The apparent punishment in the external labor market for directors of unionized firms, paired with improved union relations following compliance with union sponsors, is consistent with the view that directors make governance changes to "enjoy the quiet life" and avoid further pressure from aggressive unions. Consistent with this interpretation, we also find that the stock market reaction to union sponsored proposals that barely pass with 50-55% of the votes cast in favor is significantly lower than that for those that barely fail, while this is not the case for proposals of other sponsor types.

In contrast to claims that public pension fund activism is self-serving, we find no evidence that the markets negatively view complying with a public pension fund activist. In fact, the average market reaction to public pension fund sponsored proposals that barely pass is around 2%, while the average reaction to those that barely fail is -1.4%, significantly different at the 5% level. Moreover, directors who comply with requests from public pension funds do not experience net losses in external board seats, unlike those who comply with union sponsors. If anything, we find that directors are rewarded for complying with, and punished for ignoring, a public pension fund sponsor. Overall, we find that punishment for directors who comply with activist shareholder requests is unique to the requests of labor union activists at firms with union employee stakeholders, suggesting that public pension funds do not share their 'labor-friendly' interests.

These results are consistent with a growing literature that finds that private-sector employee stakeholder interests are not aligned with shareholders (Faleye, Mehrotra, and Morck, 2006; Chen, Kacpercyk, and Ortiz-Molina, 2012; Lee and Mas, 2012). These studies find that employees use their power achieved via unionization or a large ownership stake to advance employees' agenda of increased wages, benefits, and job security. We contribute to this literature by showing that employees can gain additional power over management even without a meaningful ownership stake, as SEC Rule 14a-8 requires shareholders to have only minimal ownership to sponsor proposals.

We also contribute to the literature on monitoring by the board of directors and the labor market for directorships as a corporate governance mechanism. We find economically significant net losses of 0.8 directorships in the three years after compliance with union sponsors for those directors who cater to self-serving union activist stakeholders (or, net losses of 0.35 incremental directorships relative to directors who ignore these activists.). The observed punishment for these directors who succumb to union interests, along with the relative rewards for directors who comply with other activist investors, such as public pension funds whose activism is met with positive abnormal returns, suggests that the director labor market provides meaningful ex-ante incentives for directors to make decisions in the interests of shareholders.

2. Hypothesis development and empirical setting

2.1 The labor market for directors

Fama (1980) and Fama and Jensen (1983) first suggested that the labor market for directors can align their incentives with shareholders. There is a substantial literature providing empirical support for the ex post settling-up hypothesis, which predicts a link between director performance on the job and future opportunities in the form of additional public company directorships (Kaplan and Reishus, 1990; Gilson, 1990; Brickley et al., 1999; and Yermack, 2004). Specifically, poor director performance is punished via a devaluation of the director's human capital, or reputational damage. Harford (2003), Coles and Hoi (2003), Srinivasan (2005), Fich and Shivdasani (2007), Fos and Tsoutsoura (2013), and Bereskin and Smith (2014) find strong support for the hypothesis that the market for directors discriminately punishes directors whose actions reveal themselves to be poor monitors, or to be more aligned with managers than shareholders. For example, Fich and Shivdasani (2007) find that outside directors at firms sued for financial fraud (who presumably failed to monitor management) experience a fifty percent reduction in external directorships in the three years following the lawsuit. The interpretation is that directors observed to make poor decisions consequently either lose board appointments at other firms at which they sit or are subsequently invited as a new board member less frequently. A net loss in directorships provides a disciplinary mechanism, as it will mean a loss of director compensation and/or social standing (Grundfest, 1993; Dyck and Zingales, 2002), and thus, improved ex-ante incentives for directors.

A limitation of this approach in interpreting additional directorships as a reward is that we can only observe the number of directorships accepted and not the number of directorships offered (e.g., Kaplan and Reishus, 1990). In addition, it is also possible that CEOs control director selection and that CEOs prefer directors who are willing to rubber stamp management decisions and not diligently monitor. However, there has been no empirical support for this alternative hypothesis that 'poor' directors are rewarded with additional directorships. Instead, there is consistent empirical evidence in a variety of settings that directors lose directorships if they make decisions that are not in shareholders' interests. For example, this has been consistently shown in varied applications such as the revelation of fraud (Srinivasan, 2005; Fich and Shivdasani, 2007), opting in favor of protection from takeovers (Coles and Hoi, 2003), resisting a takeover bid despite poor performance (Harford, 2003), and involvement in an option backdating scandal (Bereskin and Smith, 2014). Thus, our tests assume a discriminating labor market for directors.

2.2 Empirical setting to observe director decision-making: Majority vote shareholder proposals

In the previous section, we summarize the substantial empirical support for the hypothesis that the labor market for directors rewards those directors who make decisions in shareholders' interests. We propose to now take this as given and let the change in directorships reveal which board decisions are in shareholders' interests.[5] If boards comply with activist demands to the benefit of all shareholders, we expect them to be rewarded with more external directorships. If instead they give in

[5] In section 2.4 we will, however, present some event study evidence that provides at least indirect confirmation that the change in directorships evidence is consistent with shareholder wealth effects.

to self-serving activist demands just to, say, silence their critics or avoid getting their name in the press, we expect they will be punished in the director labor market. Alternatively, if boards ignore activist demands to the benefit of all shareholders, we do not expect them to be punished in the director labor market.

To test this, we need an observable event to determine whether or not directors comply with or ignore the demands of union pension fund and public pension fund activists. We use a sample of non-binding Rule 14a-8 shareholder proposals that receive a majority of vote support for several reasons. First, shareholder proposals make a very specific request to the board, such as 'de-stagger the board,' so it is unambiguous what decision activists are asking the board to consider. Second, the timing and outcome of the decision is known to market participants. If the board had already decided that the request is beneficial to implement, then the proposal would not have appeared on the proxy statement to be voted on by shareholders. Because the proposal is either implemented or not after the shareholder vote, there is a direct link between the activist request and the board decision. Furthermore, the vote outcome and subsequent board decision is easily verifiable and is indeed tracked by the Council of Institutional Investors (CII) and Institutional Shareholder Services (ISS), presumably because it is of interest to investors. Importantly, relative to a sample of all shareholder proposals, majority vote proposals have a meaningful probability of being implemented. Ertimur, Ferri, and Stubben (2010) report that only 3.2% of proposals with votes below 50% were implemented by the board, while 23.9% of proposals were implemented for vote outcomes between 50% and 60%.

A less obvious characteristic of majority vote shareholder proposals is important for the validity of our study design. Namely, we assume that not *all* shareholder proposals that receive a majority of vote support would increase value if implemented. Brownstein and Kirman (2004), Bainbridge (2006), and Alexander and Honaker (2008) argue that shareholder proposals are non-binding for good reason, and that the corporation should not be run by referendum. Directors alone have a fiduciary duty under state law to exercise their business judgment and decide what governance structure is value-maximizing for the firm. Shareholders, in contrast, can vote as altruistically or selfishly as they please. Thus, on any given issue up for a vote, directors have a greater incentive to make an informed decision relative to the typical diversified shareholder.

Brownstein and Kirman (2004) argue that in recent years, several forces have combined to increase the frequency of majority vote proposals and to render them noisier signals of the true intensity of shareholder preferences. Beginning in 2003, SEC regulations require mutual funds, which collectively own about one-quarter of the equity of U.S. public companies, to disclose voting policies describing their stance on issues that typically come up for a vote, as well as to disclose their individual voting records.[6] To efficiently comply with these requirements, many funds subsequently either outsourced their voting to third-party proxy consultants, such as ISS, or developed issue-based voting rules, such as 'vote in favor of all shareholder proposals to de-stagger the board'.[7] Brownstein and Kirman argue that this has led to both "rote policy voting in lieu of case-by-case analysis (p. 45)" and substantial influence of proxy consultants over vote outcomes. The empirical literature supports both of these arguments.

Iliev and Lowry (2014) find support for the argument that ISS has an incentive to minimize costs by issuing 'blanket recommendations' whereby they recommend to vote in favor of a proposal topic for all firms, rather than analyze the issue on a firm-specific basis. For example, in their sample of mutual fund votes from 2006-2010, they find that ISS recommends voting in favor of shareholder proposals to put the golden parachute severance agreement to a shareholder vote 100% of the time.[8] In

[6] Interestingly, the AFL-CIO made the original request to the SEC to consider a mutual fund proxy vote disclosure rule (*The Washington Post*, April 8, 2001, p H1).

[7] The Department of Labor, which oversees pension plans under ERISA, has long made clear that voting rights are considered pension assets, and as such, pension trustees have a fiduciary duty to vote in the best interests of beneficiaries. (See the DOL's 1988 "Avon letter.") Thus, institutional investor demand for third-party proxy services, such as that of ISS, precedes the mutual fund vote disclosure regulation. These plans typically have written voting policies or follow proxy consultant recommendations, similar to mutual funds.

[8] Morgan et al. (2001) provide similar evidence of blanket recommendations in their 2004-2005 sample. For example, they find that 100% of shareholder proposals on the topic of de-staggering the board and 86% of shareholder proposals on the topic of submitting the poison pill to a shareholder vote received an ISS recommendation to vote in favor and that these proposals received 90% and 78% of votes in favor on average, respectively. Examining the incentives and influence of proxy consultants is a topic of increasing regulatory and academic interest.

contrast, they find that the mutual funds with the greatest incentive to make informed votes, such as those with the largest ownership stakes, support these same proposals only 61% of the time. More importantly, they find that proposals that pass have higher abnormal returns upon passage when the incentivized mutual fund voters support them and lower abnormal returns when proposals these mutual funds support fail to garner a majority vote. They do not find similar valuation effects for ISS recommendations, which suggests that firm-specific factors are likely important in determining the value-maximizing action in any given situation. For example, even though removing takeover defenses are generally viewed to be in the best interests of shareholders, there are well-known exceptions. For example, Cen et al. (2011) and Johnson et al. (2013) find that takeover defenses are beneficial and should not be removed for firms with important long-term relationships with suppliers or customers who would otherwise find relationship-specific investment unattractive.

Several studies find that ISS recommendations are influential and can sway 6 to 20% of the votes cast in corporate elections.[9] Because ISS recommendations are also somewhat predictable, proposal sponsors can easily game the system; majority vote support is practically guaranteed with carefully chosen proposal topics in firms with high institutional ownership, independent of its merits at that particular company. Under this view, a proposal that receives support of a majority of the votes cast is not necessarily in the best interests of all (non-activist) shareholders.

Thus, if labor union pension fund and public pension fund activist interests are aligned with other shareholders, then we should observe that an outside director who complies with these activists' requests, as specified in a majority vote shareholder proposal, is more likely to retain her board seat and attract additional external directorships. If instead these activists are motivated by private benefits, then instead we should observe punishment for those directors who comply with their requests.

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[9] For example, Cai, et al. (2009) find votes in director elections are 14 to 19% lower when ISS recommends that shareholders withhold their vote for that director. In contrast, Choi et al. (2010) find that ISS independently controls only 6 to 13% of the vote. They argue that the difference from Cai et al. is because they account for firm- and director-specific factors that ISS clients would base their vote on in the absence of an ISS recommendation. Thus, they argue that the influence of ISS is overstated when one does not account for the factors that influence both ISS' recommendation and shareholder votes.

2.3 Data on majority vote shareholder proposals

Our final sample of 610 majority vote shareholder proposals from 1996 to 2004 comes from two main sources, the Council of Institutional Investors (CII) and the Investor Responsibility Research Center (IRRC) (now RiskMetrics). The CII is an investor group founded in 1985 to promote best practices in corporate governance. The membership is primarily union and public pension funds but also includes corporate pension funds. One issue that has consistently remained on the CII's agenda for over a decade is corporate boards that fail to implement a shareholder proposal despite a majority of votes cast in favor of that proposal. Every year the CII sends a letter to the boards of directors at companies receiving a majority of vote support requesting that the proposal be implemented, tracks the company response, and tabulates a summary available to its member pension funds (prior to 2004 this summary was available publicly on its website). We use this annual list from the CII containing the firm, proposal topic, proposal sponsor, and whether the company implemented the proposal from 1998 to 2004 as a starting point in collecting our sample. We then supplement this with company responses from ISS and data on shareholder proposals from the IRRC Corporate Governance Bulletin. When ISS documents a response and CII does not, we conduct a search to verify the correct response. From ISS and IRRC, we add data on the percentage of votes cast, 49 proposals from 1996 and 1997 (years not covered by CII), and 12 proposals from 1998 to 2004 that do not appear on the CII list. We determine board responses for these added proposals by examining press announcements, proxy statements, and 10-k filings in the subsequent year. We identify 643 proposals from 1996 to 2004 and are able to obtain the necessary data on 610 proposals.

We obtain the share ownership of the proposal sponsor directly from corporate proxy statements. In 416 proposals the proxy discloses the sponsor name and share ownership. In the remaining cases, the proxy statement states that this information is only available upon request. While the IRRC Corporate Bulletin lists proposal sponsors in these cases where the company does not disclose sponsor information in the proxy statement, they do not provide sponsor ownership information. Thus, sponsor ownership is missing whenever the company does not disclose it in the proxy statement.

2.4 Should all majority vote shareholder proposals be implemented? Evidence from "close-call" proposals

The Council of Institutional Investors, among others, interprets a board's failure to implement a majority-supported proposal as a sign of entrenchment. Defenders of the authority of the board to exercise proper discretion interpret a board's failure to implement as a sign that the board's fiduciary duty and superior information led them to conclude that the governance change is not in the best interests of all shareholders. To provide some initial evidence on this, we follow the spirit of the tests in Cunat et al. (2012) and identify a sample of 'close-call' shareholder proposals from 1996 to 2004 with vote outcomes between 45% and 55%. They argue that 'close-call' proposals are particularly informative about the valuation effects of a proposed governance change because 1) there is a discrete increase of about 20% in the probability of being implemented around the 50% threshold (Ertimur et al., 2010); 2) the vote outcome is not anticipated by the market; and 3) target firm characteristics do not systematically differ within this narrow band of outcomes, mitigating selection bias concerns. Thus, a comparison of the price reaction to a proposal passing versus a proposal failing provides an estimate of the expected effect of implementing the governance change. Because our interest is in distinguishing between sponsor types, we compare the price reactions across close-call proposals sponsored by union pension funds, public pension funds, and other sponsors.

Table 1 contains the average and median two-day CAR (-1,0) at the vote outcome (annual meeting date) for close-call passed and failed proposals by sponsor. We also report the percentage of CARs that are positive in each category. We find that proposals that barely pass have significantly lower CARs than proposals that barely fail only for union-sponsored proposals. Specifically, the average CAR is 1.06% lower for union sponsored proposals that pass, and this difference is significant at the 10% level. In contrast, proposals that barely pass have a large, 2.08% average CAR if sponsored by a public pension fund, while their proposals that barely fail have a -1.35% average CAR. The difference of 3.43% is significant at the 5% level. The results for median CARs are quantitatively similar. The sample of public pension fund close-call proposals is small (n=9 for barely passed and =11 for barely failed), but the difference in stock price reactions across union and public pension fund sponsors are striking and suggestive that not all passed proposals are met with a positive stock price reaction. Although not reported in the table, the mean CARs for passed proposals across union and public pension funds sponsors are significantly different at the 5% level, while the mean CARs for failed proposals across these two sponsor types are different at the 10% level.

Using the arguments in Cunat et al., one interpretation is that a higher probability of a union-sponsored request being implemented is considered bad news by investors, while a higher probability of a public pension fund request being implemented is considered good news. We find no significant difference in reaction to close-call proposals by other sponsor types. Interestingly, these results are consistent with the findings of Cai and Walkling (2011) who examine 'Say on Pay' shareholder proposals in 2006-2008, which are primarily sponsored by union pension funds. They find that proposals that pass have a significantly lower CAR by 2.3% than proposals that fail. Together, these results suggest that it is not a given that all non-binding shareholder proposals that pass should be implemented by the board, despite vocal activist pressure to do so.

2.5 Determinants of board compliance with majority vote shareholder proposals

Because shareholder proposals receiving less than 50% vote support very rarely get implemented by the board, we analyze only majority vote proposals in the remainder of the paper. The goal of the first part of our analysis is to examine the factors determining whether boards comply with an activist's request. In particular, our event study evidence suggests that implementing union fund requests is bad news for shareholders, while implementing public pension fund requests is good news. One obvious possibility is that union pension fund activists are motivated by private benefits accruing to the target firm's employees that they represent. What is less obvious is why boards would cater to these special interests.

Directors might comply with self-serving activist requests in order to avoid bad publicity or eliminate the risk of becoming future targets of 'just vote no' campaigns. Choi, Fisch, and Kahan (2011), using data on ISS vote recommendations and vote outcomes from 2005 and 2006, show that directors on boards that ignore a majority vote are substantially more likely to receive a "withhold vote" recommendation and a high percentage of "withhold" votes. Furthermore, Del Guercio, Seery, and Woidtke (2008) report that a failure to implement proposals that receive majority votes is the third most common stated reason by activists for launching a 'just vote no' campaign against directors in their sample.

Managers and directors at unionized firms in particular might comply with union pension fund requests to enjoy the "quiet life" in order to buy peace with employees or head off more aggressive union tactics (Bertrand and Mullainathan, 2003; Cronqvist et al., 2009). This should be especially true if the union pension fund sponsoring the proposal also represents unionized employees at that same firm. These are the sponsors who have the greatest incentive to make life difficult for managers and directors who ignore their requests and who have the least incentive to give up completely if at first they are ignored.

2.5.1 Majority vote shareholder proposals: summary statistics and compliance rates

Before testing whether boards appear to have quiet life incentives for complying with activists, we present summary statistics on our sample of majority vote proposals and the subsequent board response in Table 2. The header of Table 2 contains detailed variable definitions and data sources. The first column of Panel A shows that unconditionally over our sample period, majority vote shareholder proposals have a 17.7% probability of the board responding by fully complying with the activist request before the next annual meeting. The average proposal receives 63.5% of votes cast in favor, and the average proposal sponsor owns only 0.26% of shares outstanding. Using primarily information reported in 10-k filings, we report the percentage of proposal targets where the firm has a unionized workforce. Although we check the robustness of our results to an alternate definition of a unionized workforce, we report results where we define a firm as unionized if any of its employees are subject to collective bargaining agreements.[10]

We find that 69.8% of majority vote proposals are at unionized firms. Within proposals at unionized firms sponsored by union pension funds, we also determine whether the sponsor is the same umbrella union representing some or all of the firm's employees ("dual role" sponsor). In 1997 the AFL-CIO created an Office of Investment to coordinate corporate governance efforts on behalf of its member unions (Jacoby, 2008). Consequently, we consider a proposal that is sponsored by the AFL-CIO or one of its members to be a dual role proposal if one of the firm's employee collective bargaining agreements is with an AFL-CIO member union.[11] We find that 19% of majority vote proposals are sponsored by dual role union pension funds. Finally, for the subsample of unionized firms, we report a summary score based on variables from the KLD SOCRATES database as a measure of the state of union-management relations in the year prior to the annual meeting. This

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

[11] We also consider an alternate definition where we require an exact match between a specific union sponsor and a specific collective bargaining agreement (e.g., Sheet Metal Workers must be both the sponsor name and the union name under that firm). The results are qualitatively similar under either definition.

variable ranges from -1 to 1, with a -1 indicating poor relations, 0 indicating neutral, and +1 indicating excellent relations, with an overall sample mean of -0.04.[12]

The next columns report statistics by sponsor type. Union pension funds sponsor 32.6% of all majority vote proposals, while public pension funds sponsor 7.5%. Renneboog and Szilagyi (2010) report that these sponsor types represent 33% and 4.8% of all shareholder proposals that came to a vote from 1996 to 2005, suggesting that public pension funds have disproportionately more success in garnering majority vote support. We find that the average vote support for union sponsored majority vote proposals is significantly lower, while the full compliance rate is significantly higher, relative to all other sponsors. The average ownership of union pension fund sponsors (0.01%) is also significantly smaller than the other sponsor types, but it is possible that their ownership is underestimated due to their use of external portfolio managers who report holdings separately.[13] While the average ownership of public pension fund sponsors is larger (0.51%), it is not significantly different from the other sponsor types.

Union pension fund proposals are at firms with significantly lower unionization rates (64.3%) but with significantly poorer union relations relative to proposal firms of other sponsors. The mean union relations score for unionized firms targeted by union sponsors is -0.13, which is significantly different from the average score of other sponsor types at the 1% level. A magnitude of -0.13 is also large relative to the overall sample in that it represents 31% of the standard deviation from the mean score of -0.04. Public pension fund proposal firms also have significantly lower rates of unionization

[12] Specifically, the union relations score is computed as Union Relations Strengths minus Union Relations Concerns. KLD assigns a score of either 0 or 1 at calendar-year ends based on their analysts' review of company news, filings, or other public sources. Union Relations Strength =1 if "the company has taken exceptional steps to treat its unionized workforce fairly", and =0 otherwise. Union Relations Concerns = 1 if "the company has a history of notably poor union relations", and = 0 otherwise. Because the union relations score is defined as strengths minus concerns, a 1 indicates excellent relations, a zero is neutral, and a -1 indicates poor relations. KLD assigns scores for publicly-traded firms in many categories of interest to their institutional investor clients focused on socially responsible (Environmental Social Governance) issues. Recent papers using KLD data to study labor and finance issues include Landier et al. (2009) and Bae et al. (2011).

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

(52.2%), but their mean union relations score of -0.05 is not significantly different from all other sponsors.

The next columns provide statistics by proposal topic. Seventy-three percent of all majority vote proposals request that the board either remove the poison pill or staggered board or put its removal up for a binding shareholder vote. Relative to other proposal topics, these two types have significantly lower full compliance rates of approximately 13%.[14] In contrast, proposals on the topic of executive compensation have the highest compliance rate of 31.5%, despite also having the lowest average vote support of 58.8% (both significantly different from other proposal categories at the 1% level). Interestingly, nearly half of executive compensation proposals are sponsored by dual role union sponsors. This fits the prediction of Matsusaka and Ozbas (2013) whereby union activists might strategically pick proposal topics that management cares a lot about, such as their compensation, in order to provide a credible threat that they will apply more pressure if side payments are not made to them (e.g., employee benefits).

We also present summary statistics for an early (1996-2000) versus later (2001-2004) period. As noted by Ertimur et al. (2010) and Renneboog and Szilagyi (2010), shareholder proposals have enjoyed increasingly higher average vote support over time. This is evident in the increase in the number of majority vote proposals from 188 in the earlier period (representing 19.7% of all shareholder proposals, untabulated) to 422 in the later period (35.4% of all shareholder proposals). Even within majority vote proposals, we find significantly higher vote support (64.4% vs. 61.6%) in the later sample period, but the compliance rate is not significantly different (18.8% vs. 15.1%).

Finally, in the last two columns, we present summary statistics for the number of times a proposal receives majority vote support. Four hundred and fifteen proposals, or 68% of the sample,

[14]Full compliance excludes cases where the company agreed to let the poison pill expire but reserved the right to adopt a new plan without shareholder approval in the future if the board decides that it is in the best interest of shareholders to do so. Based on press reports and the fact that companies tend to receive additional poison pill proposals in the year following the compromise, we infer that activists do not consider this board action as a satisfactory response to their request. In our tests we pool these compromises with ignoring activists' requests, but we note that our results are not sensitive to how we treat compromise responses.

receive majority vote support for only one year, indicating it is the first time the proposal receives majority vote support. In the remaining 32% of proposals, the company had a proposal on the same topic receive majority vote support in the previous year. We find significantly higher vote support but lower compliance rates for repeat targets. We also find significantly higher sponsor ownership for first time proposals (0.38%) than for repeat targets (0.02%). Target firms that ignore multiple consecutive majority vote proposals are precisely the reason that the CII began tracking and publicizing whether firms implement these proposals. In our tests, we consider whether or not the firm is a repeat target.

Table 2, Panel B contains the number of majority vote proposals by sponsor type, cross-tabulated with proposal topic, time period, and repeat target status. Union pension funds sponsor more executive compensations proposals than other types, while 80% of public pension fund sponsored proposals are concentrated in removing or voting on a staggered board. Over half of the proposals sponsored by union funds request the dismantling of anti-takeover provisions, which might seem counter-intuitive given that employee layoffs and restructurings often accompany takeovers. Results in the literature, however, suggest that firms with employees who own significant stock in the firm or that are unionized are less likely to be acquired (Rauh, 2006; Chen et al., 2012). These authors suggest that employee stock ownership or unionization is an effective substitute for traditional takeover defenses. It is also possible that activists favor anti-takeover proposals simply because they tend to garner high vote support.

2.5.2 Do directors comply with unions to enjoy the quiet life?

To examine whether boards are more likely to comply with requests from activists when they feel pressure from unionized employees, we examine determinants of compliance rates in Table 3. In Panel A we report univariate tests of the rate of compliance by proposal sponsor type and by whether the firm's employees are unionized. Consistent with the "quiet life" hypothesis, we find significantly higher compliance rates only in the case where both the sponsor is a union pension fund and the firm is unionized. Specifically, of firms targeted by union pension funds, only 7.1% of boards comply at non-unionized firms, while the compliance rate is over twenty percentage points higher, 29.4%, at unionized firms. This difference in compliance is significant at the 1% level. In contrast, for the sample as a whole and for other sponsor types, there are no significant differences in compliance rates between unionized and non-unionized firms, suggesting that the unionized status of the firm only affects the board's decision when the sponsor is a union.

We also compare compliance rates for the sample of firms where the union fund proposal sponsor is the same umbrella union representing some or all of the firm's employees ("dual role" sponsor). We find a significantly higher compliance rate when the sponsor is a dual role union (30.7%), relative to the rate for all other majority vote proposals at non-dual-role firms (14.6%), and relative to non-dual role firms of union fund sponsors (8.5%). This suggests that union sponsors are especially influential with the board when they also represent employees.

To further examine whether a "quiet life" interpretation is warranted, we test whether the compliance rate is significantly higher when directors have a greater incentive to favor the quiet life rather than face contentious union negotiations. Specifically, we test whether boards are more likely to comply when management-union relations in the year prior to the annual meeting are poor and when directors are closer to retirement age. We conjecture that as directors approach retirement the benefits of the quiet life potentially outweigh the costs of the damage to their reputations as vigilant corporate monitors on behalf of shareholders. The last four rows of Panel A support this interpretation. Boards of unionized firms with poor union relations comply with the proposal 30.2% of the time, relative to 16.9% of the time for all other firms, with the difference significant at the 5% level. Moreover, when the sponsor is a union pension fund, the compliance rate at firms with poor union relations is even higher, 42.1%, significantly different from the 19.1% compliance rate for other targets of union funds. Notably, public pension fund sponsors tend not to target firms with poor union relations. Only one of their 42 targets has poor union relations, and this board ignores their request. This is consistent with our previous evidence that public pension funds do not appear to display 'labor-friendly' tendencies. Similarly, for the Other sponsor type, the compliance rate at firms with poor union relations is not significantly different from the rate at their other target firms.

Finally, in the last two rows we compare the compliance rates at dual role firms only, where we previously found the highest rate of compliance among sponsor types. We divide dual role firms into those where the average director age across the firm's non-employee directors is above the sample median (60.7 years) versus those where the average age is at or below the median. Consistent with a quiet life interpretation, we find the compliance rate in dual role proposal firms with older independent directors is 39.7%, which is significantly different at the 5% level from the rate of 21.4% at dual role firms with younger directors.

In Panel B of Table 3 we examine whether these results extend to a multivariate analysis. We report estimates of a probit regression where the dependent variable equals one if the board complies with the request in the majority vote proposal, and zero otherwise. Although they do not examine the impact of a unionized workforce or a dual role sponsor, Ertimur et al. (2010) examine the determinants of compliance with majority vote proposals. They find that the percentage of vote support, proponent ownership, and the sponsor and proposal type are significant determinants of compliance. We include these variables and find similar signs and significance for most variables. Specifically, compliance is significantly more likely for proposals with higher vote support and higher proponent ownership. We also find results generally consistent with the univariate results in Table 2 Panel A. Proposals to remove takeover defenses have lower average compliance rates, while first-time majority vote proposals have higher average rates.

Consistent with the univariate results in Table 3 Panel A, whether or not the firm is unionized is not significantly related to compliance. Further, comparing column (1) to the other columns suggests that the increase in the probability of compliance for union fund sponsors is driven by the sub-sample of firms where unions can potentially exert more pressure. The interactions of the union pension fund sponsor dummy with unionization and whether the union is a dual role sponsor are positive and highly significant at the 1% level in all specifications. While the magnitude of the marginal effect varies across specifications and whether the interaction term includes the unionized firm dummy or the dual role dummy, it is economically significant in all specifications. The interaction effect, averaged over firms in the sample for each specification, (untabulated) indicates that the probability of board compliance with a union fund is 26 to 31 percentage points greater at unionized firms relative to non-unionized firms, similar to the univariate difference.[15]

Columns (6) and (7) report tests for the incremental effects of the two variables intended to measure variation in quiet life incentives. We find that the interaction of union pension fund sponsor with dual role is significantly positive at the 1% level both when target firms did and did not have poor union relations in the prior year. Even though the coefficient is larger when union relations are poor (and the unreported marginal effect is 9 percentage points greater), it is not statistically different from the coefficient when union relations are not poor. We find very similar effects for the interaction of union sponsor, dual role, and the average age of independent directors above and below the sample median. Namely, both the coefficient and the marginal effect are larger when boards have older directors, as predicted by quiet life incentives. However, the coefficient for the above median age interaction is not significantly different from that for the below median age interaction.

In contrast to union sponsors, the increased likelihood of compliance with public pension fund sponsors is not driven by the sub-sample of unionized firms. Thus, contrary to common criticisms of public pension funds, we find no evidence that boards perceive them to have labor-friendly agendas. However, our results are consistent with the view that boards are more likely to comply with union sponsors who are likely to aggressively and persistently target the firm due to their interests as

[15] It can be difficult to interpret the marginal effect of interaction terms in a nonlinear model (e.g., Norton, Wang, and Ai, 2004); however, graphs of the interaction effect of union sponsor with unionized firm indicate the effect on the probability of compliance is positive and significant across nearly all firms.

unionized employees. Thus, compliance with union sponsors may be motivated by "quiet life" benefits rather than the governance changes being in the best interests of shareholders. In the next section, we test whether union sponsors and the employees they represent tend to benefit from applying public pressure to boards.

2.5.3 Do directors who comply with unions enjoy the quiet life? Changes in management-union relations following majority vote shareholder proposals

Our evidence so far is only suggestive that union employees benefit from union pension fund activism, possibly at the expense of shareholders. Ideally, we would like to directly measure whether employees benefit from union activism in the form of higher wages or better healthcare or retirement benefits in the next collective bargaining agreement. However, these data are not generally available.[16] However, KLD updates the union relations score annually, allowing us to measure the change in union relations from before to after the proposal year. Specifically, for the sub-sample of unionized firms, we compute the change in the union relations score from one year prior to the annual meeting to one year after the annual meeting. This change in score theoretically ranges from -2 to +2, with a positive score indicating that union relations improve, a negative score indicating worsening relations, and a zero indicating no change. However, the sample minimum and maximum are -1 and +1, suggesting that we do not observe any firms changing from excellent to poor, or vice versa, within two years. The mean change over all proposal firms is -0.01, with a standard deviation of 0.24.

For each proposal sponsor category, Table 4 reports the mean union relations score in the year prior to the annual meeting and the change in score from year -1 to year +1 by whether the board ignored or complied with the activist sponsor's request. Consistent with Table 3 Panel A, we find that the boards that comply tend to be at firms with the poorest union relations in the year prior to the

[16] For example, total wages are reported as a separate item by only a small number of Compustat firms. Only 17.5% of our sample firms report wages separately from aggregate expenses reported under Selling, General, and Administration (SG&A).

annual meeting. We find that the mean union relations score is -0.123 for firms with boards that comply, relative to a mean score of -0.022 for firms with boards that ignore activists' requests, with the difference significant at the 10% level. Similarly, 17.8% of firms with boards that comply have poor union relations, relative to 9.4% of firms with boards that ignore activists' requests, a difference significant at the 5% level. Also consistent with Table 3, firms with boards who comply with union pension sponsors or union "dual role" sponsors have even poorer union relations on average, with mean scores of -0.194 and -0.206, and nearly a quarter of these firms have poor relations before the annual meeting, in contrast to the other sponsor types. We note, however, that union relations are poor for almost all targets of union sponsors and not significantly different if the board either ignores or complies with the request. This suggests that union sponsors intentionally target boards when union relations are contentious, which is consistent with the findings of Agrawal (2012). He finds that union pension funds that represent the firm's employees are more likely to withhold votes in a director election during times of union strife.

Of greater interest is whether union relations improve following compliance with an activist request, relative to if the board ignores the activist request. For each sponsor type, the bottom three rows of Table 4 present changes in score from -1 to +1. For the sample overall, and for the sub-sample of union sponsors or union dual role sponsors, we find that the mean change in union relations score is significantly higher for firms with boards that comply relative to firms with boards that ignore the activist request, indicating relative improvement in union relations when boards comply. In contrast, for public pension or other sponsors the difference in the mean change in score is not significant. Interestingly, comparing the percentage of firms with worsening relations reveals that the union sponsor result is driven by union relations significantly worsening in firms that ignore union pension fund requests. Ten to 11% of the firms whose boards ignore union activist requests experience worsening relations, relative to none of the firms whose boards comply with union activist requests.

In the sample overall, union relations improve on average, and 5.6% experience improving relations when boards comply. The mean change in score is 0.042, which is both statistically different from the mean change at firms that ignore requests (-0.023), and economically large, representing 18% of the standard deviation of the change in score. Overall, we conclude that union relations at unionized firms clearly improve when boards comply relative to when boards ignore activist requests and refuse to implement the proposal.

In the next section, we test whether the directors who comply with union or public pension fund sponsors are penalized or rewarded in the director labor market. In particular, we analyze whether directors who appear to have catered to union stakeholders face punishment in the director labor market and whether directors who resisted pressure from union activists (and tended to endure further union disputes) are rewarded. If so, this would suggest that complying with union activists' requests (and improving union relations) is not in the best interests of shareholders.

3. Empirical Analysis on Directorships

3.1 Director reputation effects of director decision making

In this section we test whether the observed effect on director reputation, as measured by the net change in the number of directorships at external firms, depends on how the board responds to the activist request. In particular, our main interest is to test whether the reputational effect of a given board response (e.g., comply with activist request) varies by proposal sponsor and by unionized status of the firm.

3.1.1 Director-level univariate tests of reputation effects

To conduct our tests we identify all non-employee directors at the time of the annual meeting where the proposal garnered a majority vote using the IRRC (now RiskMetrics) director database from

1996 to 2007. We compute the director's net change in the number of external public company directorships for the three subsequent annual meetings after the majority vote (years +1, +2, and +3). We use proxy statements and searches in Lexis-Nexis to identify board seats in cases where this information is missing from the IRRC database. In our analysis we adopt three practices that are standard in the market for directors literature. First, we examine the effects up to three years following the event, in part because staggered board elections are a common governance structure. Second, we exclusively analyze the reputational effect on outside directors and not on insiders, as these are the directors charged with monitoring management and ensuring that decisions are made in the best interests of shareholders. Finally, we examine the change in external directorships for the sub-sample of outside directors that have at least one external board seat, as directors serving on no other boards cannot lose an external seat. For brevity, we refer to the sub-sample of outside directors with one or more board seats as simply 'directors' in the remainder of the paper.

Table 5 Panel A contains a univariate comparison of changes in external directorships for sub-samples according to director response within sponsor type categories. Specifically, for each proposal sponsor category, we report the results of a two-sided t-test for differences in the mean change in directorships between directors who comply with the activist request versus directors who ignore the request. For completeness, we also report the average changes in directorships for the full majority vote sample, which includes 3,710 targeted outside directors who hold 2.25 external directorships on average at the time of the annual meeting when the majority vote occurred (year 0).

Overall, we find evidence consistent with the hypothesis that directors who comply with union sponsors representing employee stakeholders are not acting in the best interests of shareholders. Despite a very similar number of average directorships at year 0 for directors who comply versus directors who ignore union sponsors, we find a significantly greater loss of directorships over three years, at the 1% level, when directors comply with union sponsors. Moreover, this result is driven by directors who comply with union sponsors at unionized firms or at dual role unionized firms, as we find no significant difference when directors comply at non-unionized firms (untabulated). Specifically, directors who comply with union sponsors lose 0.75 to 0.86 directorships on net within three years, a horizon common in the market for directors literature, depending on whether the directors serve on the board of a unionized or dual role unionized firm. The difference in the loss of directorships, relative to directors who ignore union sponsors, is economically large; directors who ignore union sponsors lose 0.27 to 0.37 fewer directorships on net than directors who comply with union sponsors. Whether the punishment for catering to unions is viewed in a relative or absolute sense, the magnitude equals or exceeds that found in the literature using major events associated with lax monitoring or with alignment with management instead of shareholders. For example, the average absolute change in external directorships ranges from -0.2 to -0.5 for studies of the revelation of fraud (Srinivasan, 2005; Fich and Shivdasani, 2007), opting in favor of protection from takeovers (Coles and Hoi, 2003), or having a board seat challenged in a proxy contest (Fos and Tsoutsoura, 2013).

In stark contrast, we find that directors who comply with requests from public pension funds experience significant net *gains* in external directorships within the first year of the majority vote proposal. More generally, directors who comply with requests from public pension funds experience a greater net change in external seats during the one-, two-, and three-year periods following the majority vote relative to directors who ignore public pension funds, but the difference is only significant at the one- and two-year horizons. Finally, similar to the public pension fund results, directors who comply with requests from Other sponsors experience a significantly greater net change in external seats in two of the three horizons. The magnitudes here are also economically significant, as directors who comply with public pension fund or Other sponsors lose 0.23 to 0.26 fewer directorships than directors who ignore these sponsor types.

In Table 5 Panel B, we report the results of two-sided t-tests comparing the average change in net directorships across sponsor types. For example, the last column of Panel B shows that not only is the average three year change in directorships significantly lower for directors who comply with union sponsors relative to directors who ignore union sponsors, it is also significantly lower relative to directors who comply with all other sponsors. Similarly, directors who ignore non-union sponsor types are punished significantly more relative to those directors who ignore union sponsors. Overall, the results in Panel B support the inferences we draw from Panel A. Namely, directors who comply with union sponsors representing employee stakeholders are punished in the director labor market, whereas directors who comply with other sponsor types are either not punished or even rewarded with additional directorships.

The comparisons across sponsor types of directors who ignore a majority vote (bottom four rows) are generally weaker statistically than the comparison for directors who comply (top four rows), especially in the one- and two-year horizons. This may not be surprising in that the effect on directors of complying or ignoring is not necessarily symmetric. Because the vast majority of shareholder proposals are ignored, taking no action may be more of a non-event than the higher visibility, less ambiguous, and relatively rare event of complying with an activist request. We examine the robustness of these results in a multivariate setting in the next section.

3.1.2 Director response and reputation in the market for directors: multivariate analysis

Assuming that the change in the number of external directorships indicates a change in the demand for a director's services, we examine the relation between director response to majority vote proposals and director reputation. Table 6 contains the results of an ordinary least squares regression of the change in the number of other public company directorships held by the director over the one year (specifications 1 through 5) and the three years (specifications 6 through 10) following a majority vote proposal.

In specifications 1 and 6 we test for differential director reputation effects of complying with activists across the three sponsor types, while in specifications 2, 3, 7, and 8 we include interactions of union sponsor with unionized firm or dual role sponsor. In these six specifications, the omitted category is a dummy variable equal to one if the director is on a board that ignored a majority vote proposal, so the effects of complying are relative to a director who ignored a majority vote proposal. In specifications 4, 5, 9, and 10 we add additional terms for categories of sponsor types within the directors who ignored the activist's request. Thus, in these four columns the omitted category is directors who ignored the request of activists in the Other sponsor category. We control for firm and director characteristics and compute robust standard errors corrected for firm-level clustering.

We control for the following year 0 director characteristics: age (between 65 and 69, or over 69), tenure, number of external public company directorships, gray designation, gender, committee membership, and chair of committee designation. We control for the following firm characteristics: natural log of previous calendar year-end market value of equity, prior fiscal year-end leverage, prior calendar year market-adjusted stock return, and the market-adjusted stock return from year 0 to +1 (or 0 to +3 for the three-year specifications), beginning in March of year 0. We begin in March to include the annual meeting for most firms. Consistent with the literature, directors who are older and sit on more boards experience a lower net change in external directorships. We additionally find that directors serving on audit committees experience a greater net change in external directorships. Similar to Ertimur et al. (2010), we find that the one-year change in the number of seats is negatively related to market-adjusted performance during the year after the annual meeting, although the effect on the three-year change is no longer significant. Ertimur et al. interpret the negative relation as being potentially driven by directors of firms with positive abnormal performance choosing to focus their board service on their well-performing firm and less on external boards.

We generally find support for the hypothesis that directors are punished in the external labor market for complying with union pension fund requests at unionized firms and when union funds also represent the firm's employees. We find that the net change in directorships is significantly more negative for directors complying with a request by union pension funds, and the three year negative change in directorships appears to be driven by the sub-sample of unionized firms (specification 7) or dual role firms (specification 8). Furthermore, the magnitude of the coefficient suggests a sizable incremental decrease of nearly one-third of a directorship within three years for directors complying with unions at unionized or dual role firms, consistent with the univariate results. The magnitude is similar whether the comparison group is all directors who ignore activists' requests (specifications 6 to 8), or only directors who ignore the request of Other sponsors (specifications 9 and 10).

In contrast, directors appear to be rewarded with additional directorships for complying with both public pension funds and Other sponsors. Recall that approximately 80% of the majority vote proposals sponsored by public pension funds are to de-stagger the board, a highly visible action when the board complies. Further, Bebchuk, Cohen, and Farrell (2009) find that staggered boards are associated with lower firm value, and Guo, Kruse, and Noel (2008) find a shareholder wealth gain upon the announcement of the boards' intention to de-stagger the board. Thus, a reward for complying with public pension fund requests is consistent with the findings of these papers as well as the positive market reaction to public pension proposals that barely pass. Finally, we find no significant incremental effect for directors who ignore a request for union or public pension sponsor types (specifications 4, 5, 9, and 10).

3.1.3 Director reputation effects for first time majority vote proposals

It is possible that the market for directors views the response to repeat majority vote proposals and first time majority vote proposals differently, or that the first response reveals new information about director quality. To investigate this and determine robustness, we repeat the analysis of Table 6 after excluding repeat majority vote proposals. Table 7 column 1 is the same specification as Table 6 column 4, except for the sample of first time majority vote proposals. Similarly, Table 7 column 2 is the same specification as Table 6 column 9. In Table 7 columns (3) through (6), we include additional specifications that are variations on the net change in external directorships measure. Specifically, we include probit regression estimates of the probability that a director experiences a net loss in external directorships in the one year and in the three years following majority vote support in columns (3) and (4). We also include probit regression estimates of the probability that a director experiences a net gain in external directorships in the one year and in the three years following majority vote support in columns (5) and (6).

We find the results of Table 6 to be generally robust, and in many cases stronger, when examining the sub-sample of first-time majority vote proposals. In addition, the results for the probit regressions on gaining or losing external directorships confirm the finding from the net change in directorships measure and lead to similar inferences. For example, directors who comply with unions at unionized firms are significantly more likely to experience a loss and less likely to experience a gain in directorships within three years. In unreported specifications, we confirm that the findings for dual role union sponsors are similar to those for union sponsors at unionized firms.

The results for directors who comply with public pension funds contrast with those for directors who comply with unions. These directors experience a significant net gain in external directorships following compliance. Probit estimates confirm this, as directors complying with public pension funds are significantly more likely to gain external directorships. Furthermore, we find consistent results for directors who *ignore* a public pension fund request. This is the only sponsor type where we observe a significant net loss in external directorships and a decrease in the likelihood of a gain in external directorships for ignoring a majority-supported proposal. The results for directors who comply with Other sponsors are most similar to the results for public pension funds.

In further robustness tests, we repeat the analysis of Tables 5 through 7 where we compare the changes in directorships for directors at majority vote target firms to control directors at firms matched on firm-size (sales) and market-adjusted stock performance. Thus, instead of comparing directors targeted by different sponsor types but within majority vote proposals, we compare targeted directors to non-targeted directors at firms with similar size and past performance. We report the details of our procedure and the corresponding tables in an internet appendix. We note that the results are quite similar and there is no change in inferences under this alternative method.

Taken together, the results are consistent with the view that directors at unionized firms who comply with union sponsors are punished in the external market while directors who ignore unions are not. In contrast, directors complying with majority vote requests by public pension funds and other sponsors are rewarded with a greater net gain in external seats. Under the premise that the director labor market is well-functioning, we interpret our findings as evidence that public pension fund interests are aligned with other shareholders, while union fund sponsor activists seek private benefits for their unionized employee members. These results are generally consistent with the close-vote event study analysis in section 2.4, where we find that the market reacts negatively to news that a union-sponsored proposal is more likely to be implemented but positively to the same news in the case of public pension fund sponsors.

4. Conclusion

Union and public pension funds are by far the most active among institutional shareholders adopting "low-cost" activism strategies. Recently, their activism has extended beyond shareholder proposals to lobbying Congress and the SEC for controversial corporate reforms. The dominance of labor union and public pension funds among shareholder activists has been highly contentious and has led to much speculation as to their true motives. It is inherently difficult to infer an agent's motivation, and attempts to establish whether union and public pension fund activism is in the interests of other shareholders have yielded mixed results.

We take a new approach and rely on directors' response to activist requests and the consequences in the labor market for directors to infer activist motives. Specifically, we examine a comprehensive sample of shareholder proposals that receive majority vote support to test whether directors who comply with activists are punished or rewarded in the labor market for directors. We find that directors who comply with the requests of union pension fund sponsors at unionized firms experience a significantly greater net loss in external board seats than either directors who ignore such requests, or than directors who comply with the requests of other sponsor types. We interpret punishment in the labor market for directors complying with union requests at unionized firms as an indication that the directorships market views these requests as self-serving rather than beneficial to other shareholders. This interpretation is also supported by our finding that the main determinant of whether the board will comply with the activist's request is whether the union fund also represents the employees at that firm in collective bargaining negotiations.

Consistent with Ertimur et al. (2011), union funds do not appear to target unionized firms at a greater frequency than other activists. However, several findings suggest that directors at unionized firms are especially susceptible to union-activist-stakeholder pressure due to incentives for the "quiet life." We find that boards are more likely to comply with union fund sponsors when management-union relations are especially poor, and when directors are closer to retirement age. We also find that union relations improve in the year after boards comply with these activists, but deteriorate further after boards ignore the activist request, suggesting that boards can achieve a quiet life by catering to union activists. Given our finding that these directors are subsequently punished with a net loss in directorships, we conclude that the labor market for directors provides meaningful ex-ante incentives for directors to withstand the pressure from employees and other stakeholders to take actions that are not in the best interests of shareholders.

In contrast to union fund sponsors, we find no evidence that directors who comply with requests by public pension funds are punished, and instead find that these directors are rewarded with additional directorships. We find public pension fund sponsors to be the only activist type associated with both rewards to directors for complying with their requests and punishment for ignoring them. Moreover, we find no evidence to support that patterns of targeting or outcomes of public pension fund activism at unionized firms is any different than at non-unionized firms. Together, these results suggest that public pension fund officials are not deserving of the criticisms that their activism is purely motivated by personal political aspirations or publicity, nor is it consistent with criticisms that they are sympathetic to labor union interests.

We also contribute to the debate on regulatory changes, such as Say on Pay and proxy access, that shift power to shareholder activists and away from boards of directors. Frictions in proxy voting, such as the recent rise of rote, issue-based voting policies in lieu of firm-specific analysis, imply that not every issue that garners a majority of vote support is in the best interests of all shareholders. We find that potent, low-cost activist tools combined with proxy voting frictions can make managers and boards vulnerable to pressure from employee stakeholders, to the detriment of other shareholders in the firm. This finding supports the argument that corporations should not be run by referendum; decision power should reside with the directors, who have fiduciary duties to make decisions in shareholders' interests (Dooley, 1992; Bainbridge, 2010).

Yet, we also find that pressure for governance changes from other non-union activists, such as public pension funds, are value-enhancing, suggesting that the consequences of these shifts of power are multifaceted and nuanced, rather than strictly good or bad for shareholders. Anabtawi and Stout (2008) advocate that one solution to the problem that a shareholder might use her influence to promote a governance change to extract private benefits is to hold her to a fiduciary standard similar to the one applied to corporate directors. Under this solution, additional shareholder decision-making power is coupled with additional responsibilities, and with legal liability for self-serving actions. One less extreme solution in this spirit would require the shareholder activist to disclose any material conflict of interest, such as the activist also represents the firm's employees in collective bargaining. Our results imply that such disclosure might discourage self-serving activism, without discouraging the value-enhancing variety.

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Table 1. Comparison of the stock price reaction to the outcome of close-call shareholder proposals 1996 to 2004

This table contains average abnormal returns on the vote outcome (annual meeting) date for 'close-call' shareholder proposals that receive vote support between 45% and 55% that we identify from the IRRC (RiskMetrics) database. We include all corporate governance proposals with vote outcomes in this range. We estimate market model parameters in the two hundred-day period ending 50 days prior to the announcement, using the value-weighted CRSP index as a proxy for the market. We report average cumulative abnormal returns (CARs) in the two-days around the annual shareholder meeting when the vote outcome was revealed. Median CARs are in parentheses and the percentages of CARs that are positive are in square brackets. The last column contains the mean difference between passed and failed proposals by sponsor type, and ***, **, and * indicate statistical significance using a two-tailed test.

	Passed Proposals 55%>vote>50% CAR (-1,0)		**Failed Proposals 50%>vote>45% CAR (-1,0)**		
Sponsor Type	Mean (Median) [% Positive]	N	Mean (Median) [% Positive]	N	**Difference (and t-test significance)**
Union pension fund	-0.38% (-0.34%) [44.4%]	45	0.67% (0.25%) [54.9%]	51	-1.06%*
Public pension fund	2.08% (1.99%) [77.8%]	9	-1.35% (-1.30%) [36.4%]	11	3.43%**
Other	0.25% (-0.08%) [50.0%]	54	0.27% (0.01%) [48.5%]	101	-0.02%

Table 2. Majority vote shareholder proposals (1996-2004)

This table reports the frequency of majority vote shareholder proposals, defined as a Rule 14a-8 proposal where the percentage of votes cast is greater than or equal to 50%. We obtain data on majority vote proposals from the Council of Institutional Investors annual list and the IRRC (now RiskMetrics) shareholder proposal database. Proposal sponsors are classified as either a labor union pension fund, public pension fund, or other. The Other sponsor type includes individuals and private investor groups. Proposal topics include 1) remove or vote on poison pill, 2) remove or vote on the staggered board, 3) change or vote on executive compensation (includes expense stock options at time of grant and vote on golden parachutes, pension benefits, and executive compensation structure), and 4) Other (e.g., confidential voting, majority of independent directors on board, eliminate supermajority voting, restore shareholders rights to a special meeting). A majority vote proposal is categorized as full compliance if the board fully complies with the request of the proposal before the next annual meeting. % vote support is the percentage of votes cast in favor of the proposal. Sponsor ownership % is the percentage of shares outstanding of the target firm owned by the proposal sponsor(s). The number of shares owned by the proposal sponsor is disclosed along with the sponsor's statement in support of the proposal in the proxy statement. 416 out of the 610 proposals disclose share ownership information. The others state that this information is available to those requesting it from the company. Our data source contains information when the proposal sponsor name is missing from the proxy, but does not have the missing ownership information. The ownership means below are based on 416 proposals with available information. A firm is categorized as Unionized if any of its employees belong to a union as reported in the 10-K in the year prior to the annual meeting. F-7 filings are used to supplement information from the 10-k when union information is missing. We supplement unionization data we received from Ertimur et al. (2011), using the definitions and procedure outlined in their Appendix 5. "Dual role" unionized firms indicate cases where the proposal sponsor is a union pension fund that represents some or all of the employees in collective bargaining negotiations at the proposal target firm. We consider a proposal that is sponsored by the AFL-CIO or one of its member unions to be a dual role proposal if the target firm has an employee collective bargaining agreement with one of AFL-CIO's member unions. We consider the proposal sponsor Longview Fund to be affiliated with the UNITE union based on information from their website. We obtain information on the specific unions at proposal firms from either the 10-k filing on EDGAR or F-7 filings reported on the U.S. Department of Federal Mediation and Conciliatory Service (FMCS) website. We obtain data on union relations from the KLD SOCRATES database (now called MSCI ESG STATS). The union relations score is computed as Union Relations Strengths minus Union Relations Concerns. Each calendar-year end KLD assigns a score of either 0 or 1 based on their analysts' review of company news, filings, or other public sources. Union Relations Strength =1 if "the company has taken exceptional steps to treat its unionized workforce fairly", and =0 otherwise. Union Relations Concerns = 1 if "the company has a history of notably poor union relations", and = 0 otherwise. Thus, the union relations score has a minimum of -1 (poor relations) and a maximum of 1 (excellent relations), and we report summary statistics only for the unionized target firms, as non-unionized firms would all have scores of 0. We have union relations data for 396 of 424 proposals at unionized firms. ***, **, * indicate the results of a two-sided t-test for differences in means of targets in a particular column to that of targets in all other columns within the same grouping (e.g., mean full compliance rate of targets of union pension fund sponsors relative to that of all targets of other sponsor types).

Table 2. Majority vote shareholder proposals (1996-2004) (continued)
Panel A. Compliance rates, votes in favor, and unionization status of target firms by sponsor type, proposal topic, year of vote, and whether repeat proposal

	Sponsor Type				Proposal Topic				Year of vote		Receives majority vote proposal	
	All	Union pension fund	Public pension fund	Other	Poison pill	Staggered board	Executive Compensation	Other	1996 - 2000	2001 - 2004	Once	More than once
Number of proposals	**610**	199	46	365	210	233	89	78	188	422	415	195
Number full compliance	**108**	42	12	53	26	32	28	21	28	79	82	25
% full compliance	**17.7%**	21.4%*	26.1%	14.6%**	12.5%**	13.7%**	31.5%***	27.6%**	15.1%	18.8%	19.8%**	13.0%
% Vote support	**63.5%**	62.0%***	65.3%	64.2%*	65.7%***	63.5%	58.8%***	63.3%	61.6%	64.4%***	62.1%***	66.5%
Sponsor Ownership %	**0.26%**	0.01%**	0.51%	0.39%*	0.65%***	0.10%*	0.02%	0.22%	0.41%	0.20%	0.38%**	0.02%
Unionized firm %	**69.8%**	64.3%**	52.2%***	75.1%***	71.4%	74.2%*	58.4%**	65.4%	67.0%	71.1%	66.0%***	77.9%
Dual role unionized firm	**19.0%**	58.3%	0	0	15.7%	14.2%**	49.4%***	7.7%***	22.3%	17.5%	20.5%	15.9%
Union relations score	**-0.04**	-0.13***	-0.05	0.00***	-0.01	-0.05	-0.14*	0.00	-0.01	-0.05	-0.05	-0.02

Table 2. Majority vote shareholder proposals (1996-2004) (continued)
Panel B. Number of majority vote proposals by sponsor type, proposal topic, year of vote, and repeat proposals

	Proposal Topic				Year of vote		Receives majority vote proposal	
Sponsor Type	Poison pill	Staggered board	Executive Compensation	Other	1996 -2000	2001 -2004	Once	More than once
Union pension fund	58	50	81	10	66	133	157	42
Public pension fund	2	37	0	7	24	22	39	7
Other	150	146	8	61	98	267	219	146

Table 3. Predicting board compliance with majority vote shareholder proposals

This table primarily uses the same variables defined in Table 2. In Panel A, the compliance rate is the percentage of boards at proposal firms in various sub-categories that fully comply with the activists' requests as outlined in the majority vote shareholder proposals. "Dual role" unionized firms indicate cases where the proposal sponsor is a union pension fund that represents some or all of the employees in collective bargaining negotiations at the proposal target firm, as defined in Table 2. Unionized firms with poor union relations have a union relations score, as defined in Table 2, of -1 in the year prior to the annual meeting. We classify a dual role firm as having outside directors above median age if the average age of its non-employee directors is above the sample median (59.9 years). In the probit regressions of Panel B, all variables are indicator variables except the continuous variables percentage vote support (votes in favor of the proposal as a percentage of votes cast), prior 1-year market-adjusted return, and sponsor ownership. The prior 1-year market adjusted returns are the compounded monthly returns for the firm for the 12 months ending the December before the annual meeting year less the compounded monthly returns for CRSP's value-weighted market index for the corresponding period. P-values, reflecting robust standard errors corrected for firm-level clustering, are in parentheses.

Panel A. Univariate analysis of compliance rates

	Mean [N]	Mean [N]	Mean [N]	Mean [N]
	All proposals	**Union pension-sponsor**	**Public pension-sponsor**	**Other sponsor**
Unionized firms	18.2% [423]	29.4%*** [126]	16.7% [24]	13.2% [273]
Non-unionized firms	16.4% [183]	7.1% [70]	36.4% [22]	18.7% [91]
Dual role unionized firms	30.7%*** [114]	30.7%*** [114]	N/A	N/A
Non-dual role firms	14.6% [492]	8.5% [82]		
Unionized firms with poor union relations	30.2%** [43]	42.1%** [19]	0.00% [1]	21.7% [23]
Other firms	16.9% [533]	19.1% [173]	29.3% [41]	14.1% [319]
Dual role firms with outside directors above median age		39.7%** [58]	N/A	N/A
Dual role firms with outside directors below median age		21.4% [56]		

Table 3. Predicting board compliance with majority vote shareholder proposals (continued)

Panel B. Probit analysis of compliance board compliance with majority vote shareholder proposals

	(1) Compliance =1	(2) Compliance =1	(3) Compliance =1	(4) Compliance =1	(5) Compliance =1	(6) Compliance =1	(7) Compliance =1
Unionized firm	0.13	-0.25	-0.22	-0.35	-0.16	-0.16	-0.16
	(0.326)	(0.155)	(0.240)	(0.118)	(0.360)	(0.371)	(0.354)
Union sponsor	0.28*	-0.62**	-0.93***	-1.28***	-0.67**	-0.63**	-0.66**
	(0.060)	(0.036)	(0.005)	(0.000)	(0.029)	(0.039)	(0.031)
Public pension fund sponsor	0.42*	0.49	0.44	0.39	0.32	0.38	0.32
	(0.074)	(0.128)	(0.184)	(0.259)	(0.188)	(0.130)	(0.188)
Unionized firm*Union sponsor		1.23***	1.29***	1.58***			
		(0.000)	(0.000)	(0.000)			
Unionized firm*Public pension fund sponsor		-0.33	-0.28	-0.09			
		(0.481)	(0.550)	(0.862)			
Dual role*Union sponsor					1.06***		
					(0.001)		
Dual role*Poor relations*Union sponsor						1.27***	
						(0.005)	
Dual role*No poor relations*Union sponsor						1.02***	
						(0.002)	
Dual role*Above Median Age*Union sponsor							1.21***
							(0.000)
Dual role*Below Median Age*Union sponsor							0.88**
							(0.012)
% Vote support	0.02***	0.02***	0.03***	0.02**	0.03***	0.02***	0.03***
	(0.004)	(0.005)	(0.000)	(0.023)	(0.000)	(0.002)	(0.001)
Sponsor ownership %				0.09**			
				(0.046)			

Prior 1-year market-adjusted return	0.05	0.13	0.12	-0.01	0.11	0.16	0.11
	(0.746)	(0.417)	(0.463)	(0.977)	(0.512)	(0.340)	(0.511)
Post-2000 proposal	0.19	0.23	0.03	0.13	0.01	0.07	0.00
	(0.195)	(0.124)	(0.857)	(0.472)	(0.929)	(0.664)	(0.964)
First time MV proposal	0.36***	0.39***	0.29**	0.22	0.29**	0.29**	0.29**
	(0.007)	(0.005)	(0.049)	(0.246)	(0.042)	(0.047)	(0.048)
Poison Pill			-0.60***	-0.68***	-0.60***	-0.57***	-0.59***
			(0.002)	(0.009)	(0.002)	(0.005)	(0.002)
Staggered Board			-0.51**	-0.64**	-0.52***	-0.47**	-0.51**
			(0.012)	(0.017)	(0.010)	(0.023)	(0.011)
Executive Compensation			0.29	0.46	0.22	0.14	0.20
			(0.272)	(0.168)	(0.404)	(0.594)	(0.449)
Constant	-2.96***	-2.70***	-2.49***	-1.80**	-2.49***	-2.40***	-2.44***
	(0.000)	(0.000)	(0.000)	(0.020)	(0.000)	(0.000)	(0.000)
Observations	606	606	606	415	606	576	606
Pseudo R^2	0.047	0.081	0.120	0.159	0.113	0.110	0.115

Table 4. Change in union relations score surrounding majority vote proposals of unionized target firms

For each proposal sponsor and board response category (ignore the proposal or compliance with the activist request), the table reports mean values of the union relations score in the year prior to the annual meeting of the majority vote proposal, and the number of observations in brackets. We also report the percentage of negative scores and percentage of positive scores, but omit the percentage of zero scores. The table also reports corresponding statistics for the change in the union relations score from one-year prior to the annual meeting to the year after the annual meeting. Statistics are only computed for unionized firms, as non-unionized firms have zero scores for all observations. The union relations score is defined in Table 2. Across all unionized observations, the mean union relations score in year -1 is -0.04 and the standard deviation is 0.42. The mean change in union relations score from -1 to +1 is -0.01 and the standard deviation is 0.24. ***, **, * indicate the results of a two-sided t-test for differences in means (or percentage positive or negative) of target firms that ignore the proposal versus those that comply with the proposal. The test is conducted separately within each proposal sponsor category.

	All sponsors		**Union pension-sponsor**		**Dual role union sponsor**		**Public pension-sponsor**		**Other sponsor**	
	Ignore	Compliance	Ignore	Compliance	Ignore	Compliance	Ignore	Compliance	Ignore	Compliance
Year -1	-0.022 [320]	-0.123* [73]	-0.105 [86]	-0.194 [36]	-0.118 [76]	-0.206 [34]	-0.063 [16]	0.000 [4]	0.014 [218]	-0.061 [33]
Year -1 (% negative)	9.38%	17.81%**	12.79%	22.22%	14.47%	23.53%	6.25%	0.00%	8.26%	15.15%
Year -1 (% positive)	7.19%	5.48%	2.33%	2.78%	2.63%	2.94%	0.00%	0.00%	9.63%	9.09%
	Ignore	Compliance	Ignore	Compliance	Ignore	Compliance	Ignore	Compliance	Ignore	Compliance
Change -1 to +1	-0.023 [302]	0.042** [71]	-0.088 [80]	0.029* [34]	-0.099 [71]	0.030** [33]	0.067 [15]	0.000 [4]	-0.005 [207]	0.061 [33]
Change -1 to +1 (% worsening)	3.97%	1.41%	10.00%	0.00%*	11.27%	0.00%**	0.00%	0.00%	1.93%	3.03%
Change -1 to +1 (% improving)	1.66%	5.63%**	1.25%	2.94%	1.41%	3.03%	6.67%	0.00%	1.45%	9.09%***

Table 5. Univariate analysis of the net change in external directorships

Panel A reports two-sided t-test results for differences in the mean change in external directorships between compliance and board ignores for each subgroup, where ***, **, * indicate significance at the 1%, 5%.10%. Panel B reports p-values for the results of a two-sided t-test for differences in means of target directors in a particular sub-group to other target directors within the same grouping (e.g., mean net change for target directors complying with union pension fund sponsors relative to that of other target directors complying with all other sponsor types).

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

	Year 0	(Year 0 to 1)	(Year 0 to 2)	(Year 0 to 3)
All majority vote proposal firms:	2.25 (N = 3710)	-0.201 (N = 3695)	-0.409 (N = 3687)	-0.581 (N = 3676)
Union sponsor (compliance):	2.18 (N = 266)	-0.291** (N = 265)	-0.515** (N = 264)	-0.749*** (N = 263)
Union sponsor (board ignores):	2.17 (N = 924)	-0.169 (N = 918)	-0.357 (N = 916)	-0.475 (N = 913)
Unionized firm*Union sponsor (compliance):	2.24 (N = 218)	-0.281 (N = 217)	-0.567* (N = 217)	-0.852*** (N = 216)
Unionized firm*Union sponsor (board ignores):	2.26 (N = 522)	-0.192 (N = 520)	-0.398 (N = 520)	-0.496 (N = 520)
Dual role*Union sponsor (compliance):	2.24 (N = 212)	-0.284 (N = 211)	-0.559* (N = 211)	-0.857*** (N = 210)
Dual role *Union sponsor (board ignores):	2.29 (N = 465)	-0.179 (N = 463)	-0.400 (N = 463)	-0.492 (N = 463)
Public pension fund sponsor (compliance):	2.43 (N = 58)	0.155*** (N = 58)	-0.069** (N = 58)	-0.534 (N = 58)
Public pension fund sponsor (board ignores):	2.40 (N = 174)	-0.266 (N = 173)	-0.465 (N = 172)	-0.791 (N = 172)
Other sponsor (compliance):	2.18 (N = 314)	-0.208 (N = 312)	-0.309** (N = 311)	-0.392*** (N = 311)
Other sponsor (board ignores):	2.29 (N = 1958)	-0.208 (N = 1953)	-0.441 (N = 1950)	-0.621 (N = 1943)

Table 5. Univariate analysis of the net change in external directorships (continued)

Panel B. T-tests for differences in the net change in directorships for directors within the same board response category (comply or ignore) but across sponsor types

	Year 0	**(Year 0 to 1)**	**(Year 0 to 2)**	**(Year 0 to 3)**
Board compliance with activist:	p-value	p-value	p-value	p-value
Union sponsor vs. all other sponsors	0.719	**0.030**	**0.002**	**0.001**
Unionized firm* Union sponsor vs. all other sponsors	0.861	**0.060**	**0.000**	**0.000**
Dual role*Union sponsor vs. all other sponsors	0.912	**0.056**	**0.001**	**0.000**
Public pension fund sponsor vs. all other sponsors	0.183	**0.000**	**0.012**	0.899
Board ignores activist:	p-value	p-value	p-value	p-value
Union sponsor vs. all other sponsors	**0.020**	0.165	**0.046**	**0.002**
Unionized firm *Union sponsor vs. all other sponsors	0.582	0.604	0.408	**0.028**
Dual role*Union sponsor vs. all other sponsors	0.881	0.421	0.446	**0.032**
Public pension fund sponsor vs. all other sponsors	0.193	0.266	0.547	**0.033**

Table 6. Regression analysis of the net change in other public company directorships of outside directors following a majority vote proposal

This table contains estimates from an OLS regression of the change in external public company directorships from year 0 to year +1 or year 0 to year +3 for a sample of outside directors for target firms with a majority vote proposal. Director characteristics are measured in year 0 and are from the IRRC director database, or if missing, from proxy statements. Directors of target firms that are acquired or bankrupt are included. Directors who die before the next annual meeting are set to missing. P-values, reflecting robust standard errors corrected for firm-level clustering, are in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels.

	Net Change in Directorships					Net Change in Directorships				
	(0 to +1)	**(0 to +1)**	**(0 to +1)**	**(0 to +1)**	**(0 to +1)**	**(0 to +3)**	**(0 to +3)**	**(0 to +3)**	**(0 to +3)**	**(0 to +3)**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Union sponsor * compliance	-0.07	-0.16*	-0.14	-0.15	-0.13	-0.16	0.11	0.10	0.13	0.12
	(0.0159)	(0.099)	(0.131)	(0.117)	(0.148)	(0.155)	(0.415)	(0.396)	(0.347)	(0.332)
Unionized * Union sponsor * compliance		0.11		0.10			-0.32*		-0.33*	
		(0.306)		(0.349)			(0.060)		(0.060)	
Dual role * Union sponsor * compliance			0.08		0.08			-0.33*		-0.33*
			(0.428)		(0.464)			(0.051)		(0.052)
Public pension sponsor * compliance	0.31**	0.31**	0.31**	0.30**	0.30**	0.13	0.13	0.13	0.15	0.15
	(0.041)	(0.040)	(0.040)	(0.045)	(0.044)	(0.397)	(0.412)	(0.415)	(0.367)	(0.369)
Other sponsor * compliance	-0.03	-0.03	-0.03	-0.03	-0.03	0.18***	0.18***	0.18***	0.20***	0.20***
	(0.581)	(0.581)	(0.581)	(0.621)	(0.620)	(0.006)	(0.006)	(0.006)	(0.003)	(0.003)
Union sponsor * ignore				0.05	0.04				0.05	0.02
				(0.300)	(0.376)				(0.605)	(0.757)
Unionized * Union sponsor * ignore				-0.06					0.07	
				(0.385)					(0.513)	
Dual role * Union sponsor * ignore					-0.04					0.12
					(0.547)					(0.223)
Public pension sponsor * ignore				-0.08	-0.08				-0.12	-0.12
				(0.306)	(0.311)				(0.378)	(0.377)
Director age 65 to 69	-0.13***	-0.13***	-0.13***	-0.13***	-0.13***	-0.51***	-0.51***	-0.51***	-0.51***	-0.51***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)

Director age >= 70	-0.49***	-0.49***	-0.49***	-0.48***	-0.48***	-0.77***	-0.77***	-0.77***	-0.76***	-0.76***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director tenure	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.254)	(0.251)	(0.248)	(0.219)	(0.217)	(0.862)	(0.866)	(0.879)	(0.786)	(0.795)
Number of external directorships	-0.13***	-0.13***	-0.13***	-0.13***	-0.13***	-0.36***	-0.36***	-0.36***	-0.36***	-0.36***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Director is gray	-0.02	-0.02	-0.02	-0.02	-0.02	-0.15*	-0.15*	-0.15*	-0.14*	-0.14*
	(0.744)	(0.754)	(0.756)	(0.752)	(0.758)	(0.082)	(0.080)	(0.077)	(0.084)	(0.085)
Director is female	0.06	0.06	0.06	0.06	0.06	0.01	0.01	0.01	0.01	0.00
	(0.112)	(0.114)	(0.114)	(0.125)	(0.123)	(0.888)	(0.878)	(0.874)	(0.931)	(0.942)
Director is on compensation committee	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
	(0.210)	(0.216)	(0.215)	(0.193)	(0.195)	(0.454)	(0.442)	(0.442)	(0.410)	(0.414)
Director is on audit committee	0.04	0.04	0.04	0.04	0.04	0.11*	0.11**	0.11**	0.12**	0.12**
	(0.229)	(0.240)	(0.241)	(0.215)	(0.219)	(0.051)	(0.047)	(0.045)	(0.041)	(0.039)
Director is on nominating committee	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.05
	(0.203)	(0.211)	(0.214)	(0.190)	(0.192)	(0.409)	(0.397)	(0.385)	(0.345)	(0.332)
Director chairs a committee	-0.01	-0.01	-0.01	-0.01	-0.01	-0.08	-0.08	-0.08	-0.08	-0.08
	(0.857)	(0.860)	(0.864)	(0.833)	(0.832)	(0.252)	(0.249)	(0.245)	(0.227)	(0.227)
Market capitalization, year -1	-0.02	-0.02	-0.02	-0.02	-0.02	-0.00	-0.00	-0.00	-0.01	-0.01
	(0.144)	(0.163)	(0.160)	(0.118)	(0.121)	(0.950)	(0.884)	(0.879)	(0.791)	(0.781)
Leverage, year -1	0.03	0.02	0.02	0.04	0.03	-0.31	-0.29	-0.29	-0.32	-0.33
	(0.824)	(0.874)	(0.859)	(0.715)	(0.775)	(0.151)	(0.180)	(0.180)	(0.151)	(0.134)
Market-adjusted stock return, year -1 to 0	-0.05	-0.05	-0.05	-0.05	-0.05	0.08	0.08	0.08	0.08	0.09
	(0.412)	(0.422)	(0.418)	(0.402)	(0.411)	(0.330)	(0.353)	(0.351)	(0.334)	(0.320)
Market-adjusted stock return, year 0 to +1	-0.08**	-0.08**	-0.08**	-0.08**	-0.08**	-0.03	-0.03	-0.03	-0.03	-0.03
(or 0 to +3 for 3-year change)	(0.037)	(0.039)	(0.037)	(0.035)	(0.034)	(0.455)	(0.440)	(0.454)	(0.402)	(0.406)
Constant	0.29**	0.28**	0.28**	0.30**	0.30**	0.41	0.42	0.42	0.44	0.44
	(0.041)	(0.044)	(0.044)	(0.039)	(0.039)	(0.122)	(0.111)	(0.111)	(0.106)	(0.103)
Observations	3513	3513	3513	3513	3513	3494	3494	3494	3494	3494
Adjusted R^2	0.09	0.09	0.09	0.09	0.09	0.23	0.23	0.23	0.23	0.24

Table 7. Analysis of the net change in other public company directorships, and lost or gained directorships of outside directors for first time majority vote proposals

In this table we repeat earlier analysis after excluding repeat majority vote proposals. Column (1) is the same specification as Table 6, specification (4), and column (2) is the same specification as Table 6, specification (9), except that here we exclude repeat majority vote proposals. Column (3) contains probit regression estimates of the probability that an outside director experiences a net loss in external directorships within one year of the annual meeting of the majority vote proposal and column (4) contains the analogous estimates for directorship loss within three years of the annual meeting. Column (5) contains probit regression estimates of the probability that an outside director gained an external directorship within one year of the annual meeting of the majority vote proposal and column (6) contains the analogous estimates for directorships gained within three years of the annual meeting. P-values, reflecting robust standard errors corrected for firm-level clustering, are in parentheses. ***, **, * indicate significance at the 1%, 5%, and 10% levels.

	Net Change in number directorships		**Directorship loss**		**Directorship gain**	
	(0 to +1)	**(0 to +3)**	**(0 to +1)**	**(0 to +3)**	**(0 to +1)**	**(0 to +3)**
	(1)	(2)	(3)	(4)	(5)	(6)
Union sponsor * compliance	-0.15	0.10	0.26**	-0.08	-0.52	0.15
	(0.155)	(0.456)	(0.037)	(0.619)	(0.216)	(0.302)
Unionized * Union sponsor * compliance	0.09	-0.32*	-0.17	0.32*	0.28	-0.49**
	(0.450)	(0.066)	(0.268)	(0.082)	(0.517)	(0.038)
Public pension sponsor * compliance	0.35**	0.19	-0.44	-0.00	0.38	0.27***
	(0.036)	(0.274)	(0.116)	(0.988)	(0.226)	(0.004)
Other sponsor * compliance	-0.01	0.21**	0.12	-0.12	0.17	0.20
	(0.868)	(0.025)	(0.209)	(0.326)	(0.227)	(0.117)
Union sponsor * ignore	0.03	0.05	0.02	0.09	0.12	0.18*
	(0.562)	(0.550)	(0.842)	(0.376)	(0.271)	(0.077)
Unionized * Union sponsor * ignore	-0.05	0.05	-0.03	-0.13	-0.16	-0.14
	(0.475)	(0.653)	(0.821)	(0.265)	(0.270)	(0.311)
Public pension sponsor * ignore	-0.13*	-0.10	0.11	0.16	-0.43**	-0.02
	(0.077)	(0.403)	(0.413)	(0.258)	(0.031)	(0.913)
Director age 65 to 69	-0.11**	-0.48***	0.14*	0.40***	-0.12	-0.47***
	(0.020)	(0.000)	(0.076)	(0.000)	(0.222)	(0.000)
Director age >= 70	-0.54***	-0.86***	0.70***	0.80***	-0.72***	-0.98***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)

Director tenure	-0.00	-0.00	0.00	0.00	-0.01	-0.02*
	(0.412)	(0.351)	(0.744)	(0.883)	(0.216)	(0.052)
Number of external directorships	-0.13***	-0.36***	0.23***	0.29***	-0.01	-0.13***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.647)	(0.000)
Director is gray	-0.02	-0.15*	0.08	0.13	-0.03	-0.19
	(0.599)	(0.078)	(0.353)	(0.204)	(0.764)	(0.143)
Director is female	0.05	-0.08	-0.15	-0.06	-0.00	-0.16
	(0.252)	(0.256)	(0.112)	(0.483)	(0.965)	(0.150)
Director is on compensation committee	0.03	0.06	0.00	-0.05	0.07	0.03
	(0.454)	(0.274)	(0.967)	(0.369)	(0.465)	(0.708)
Director is on audit committee	0.04	0.10*	-0.04	-0.05	0.03	-0.00
	(0.253)	(0.091)	(0.557)	(0.520)	(0.717)	(0.990)
Director is on nominating committee	0.04	0.08	-0.08	-0.14**	-0.07	0.11
	(0.257)	(0.181)	(0.207)	(0.043)	(0.392)	(0.192)
Director chairs a committee	0.01	-0.08	-0.05	0.04	-0.05	-0.08
	(0.793)	(0.244)	(0.491)	(0.576)	(0.583)	(0.380)
Market capitalization, year -1	-0.03**	0.01	0.03	-0.02	-0.07**	-0.02
	(0.049)	(0.860)	(0.167)	(0.478)	(0.029)	(0.438)
Leverage, year -1	0.01	-0.24	-0.20	0.16	-0.17	-0.25
	(0.923)	(0.300)	(0.417)	(0.513)	(0.593)	(0.393)
Market-adjusted stock return, year -1 to 0	-0.09	0.11	-0.01	-0.19*	-0.27*	-0.02
	(0.227)	(0.286)	(0.902)	(0.058)	(0.087)	(0.878)
Market-adjusted stock return, year 0 to +1	-0.06	-0.02	-0.01	-0.04	-0.25**	-0.03
(or 0 to +3 for 3-year change)	(0.210)	(0.650)	(0.874)	(0.280)	(0.019)	(0.466)
Constant	0.41**	0.34	-1.45***	-0.52*	-0.36	-0.33
	(0.013)	(0.229)	(0.000)	(0.059)	(0.261)	(0.287)
Observations	2333	2324	2333	2324	2333	2324
Pseudo R^2			0.072	0.097	0.045	0.069
Adjusted R^2	0.09	0.23				

p-values in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$