

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

Ashwini K. Agrawal

New York University, Stern School of Business

Working Paper

September 2008

Abstract

Labor union shareholders have become increasingly vocal in matters of corporate governance, however, their motives have been subject to much debate in the academic literature and business press. I examine the proxy votes of AFL-CIO pension funds in director elections of 504 companies from 2003 to 2006. Using the 2005 AFL-CIO breakup as a source of exogenous variation in the union affiliations of workers across firms, I find that AFL-CIO affiliated shareholders are significantly more supportive of director nominees once the AFL-CIO no longer represents workers or represents significantly fewer workers at a given firm. Other institutional investors do not exhibit the same changes in voting behavior. This difference suggests that labor relations affect the voting patterns of some union shareholders. I also find that AFL-CIO funds are more likely to vote against directors of firms in which there is greater frequency of plant-level conflict between labor unions and management during collective bargaining and union member recruiting. The sensitivity of director votes to union conflict, however, decreases at firms in which the AFL-CIO no longer represents workers or represents significantly fewer workers. The evidence suggests that AFL-CIO affiliated shareholders vote against directors partly to support union worker interests rather than increase shareholder value alone.

I am thankful to my dissertation committee for their help with this project: Marianne Bertrand, Steven Kaplan, Joshua Rauh, and Morten Sorensen. I am especially grateful to Morten Sorensen for his guidance and encouragement. I have benefited from the comments of David Autor, Karen Bernhardt, Douglas Diamond, Eugene Fama, John Heaton, Anil Kashyap, Randall Kroszner, Gregor Matvos, Atif Mian, Adair Morse, Toby Moskowitz, Marcus Opp, Jessica Pan, Amit Seru, Amir Sufi, Luigi Zingales, and workshop participants at the University of Chicago, Graduate School of Business. I am also thankful to Daniel Pedrotty of the AFL-CIO Office of Investment, Greg Kinzowski of Marco Consulting, Edward Durkin of the United Brotherhood of Carpenters and Joiners of America, Michelle Evans of the AFL-CIO Office of Investment, Mary Cusick of the I.A.M. National Pension Fund, and Barry Burr of Pensions and Investments for providing data and institutional background. Research support from the Wesley C. Picard Fellowship is appreciated.

Contact information: aagrawal@stern.nyu.edu, 44 West 4th St, KMC Room 9-75, New York, NY 10012

Introduction

Labor union pension funds, particularly those affiliated with the AFL-CIO, have recently come under scrutiny for their role in affecting boards of directors at U.S. corporations. Critics argue that unions use their shareholder clout to advance worker interests under the guise of pursuing shareholder value. For example, in response to the AFL-CIO's calls to overhaul Safeway's board and lower CEO pay in 2004, Safeway Vice President Brian Dowling claimed:

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

Union leaders counter that their behavior is intended simply to protect pension assets:

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

Distinguishing amongst the various motivations of labor union shareholders is complicated because worker gains are often in line with shareholder value. Empirical identification requires a setting in which shareholders' labor interests vary independently of factors that impact the return on equity.

This paper exploits a natural experiment to test whether the governance objectives of some labor union shareholders are motivated by worker interests rather than equity value maximization alone. In 2005, the AFL-CIO (the central federation of labor unions in the United States) split into two groups because of power struggles within its leadership (Chaison, 2007). The AFL-CIO was greatly reduced in size as several of its member unions left to form a new organization — the Change To Win (CTW) coalition. As a result, the union affiliation of workers across many companies immediately switched from the AFL-CIO to the CTW. I examine the effects of this switch on the proxy voting behavior of two of the AFL-CIO's main equity funds at annual director elections for 504 U.S. publicly traded corporations before and after the breakup (from 2003 to 2006). The votes cast by these funds are representative of the votes cast by AFL-CIO affiliated union pension funds with holdings on the order of \$100 billion in aggregate size. I measure how the AFL-CIO funds' director votes change when the

workers of a given firm become significantly less represented, or not represented at all, by the AFL-CIO. I compare this to their voting behavior at firms in which the AFL-CIO's union representation of workers remains relatively constant. I then estimate the added voting impact of plant-level conflict arising between labor unions and firm managers during collective bargaining and union membership recruiting.

Finance theory typically assumes that shareholders only care to maximize equity value (Shleifer and Vishny 1988). There is little theoretical or empirical work depicting investors with heterogeneous preferences.¹ However, recent examples of corporate governance conflict, such as that of Safeway, suggest that shareholders may have disparate objectives. These preferences are revealed by behavior in director elections. I find that when a firm's main unionized employees change affiliation from the AFL-CIO to a different labor organization, the AFL-CIO funds become significantly more supportive of the firm's directors in subsequent board elections. The funds are 14-18% more likely to vote for, rather than against, director nominees. Moreover, the voting behavior of the AFL-CIO funds does not change at firms in which workers remain primarily affiliated with the AFL-CIO or at firms in which there are no unionized employees at all.

The causal interpretation of this finding is dependent upon the identifying assumption that changes in employee-union affiliation are independent of simultaneous, unobservable changes in factors that affect shareholder value (such as director quality). This assumption is investigated by comparison of the AFL-CIO funds' proxy votes with votes cast by several large institutional investors: Fidelity, Vanguard, and TIAA-CREF.²

¹ There are several papers which examine heterogeneity among shareholders stemming either from different tax rates on capital gains (Eckbo and Verma 1994), cross-ownership of shares through diverse portfolio holdings (Matvos and Ostrovsky 2007, Harford, Jenter, and Li 2006), or from having multiple claims on firm profits, as in the case of employee stock holders (Jensen and Meckling 1979, Blasi, Conti, and Kruse 1996, and Faleye, Mehrotra, and Morck 2006). This paper, in contrast, focuses on shareholders who are not necessarily employees of the companies in which they own stock and who likely face the same portfolio and tax rate considerations as other institutional investors such as mutual funds. See Romano (2001) and Schwab and Thomas (1998) for theoretical motivations for union shareholder activity in U.S. corporations.

² The identification assumption is also motivated by two other pieces of evidence. First, various accounts indicate that the breakup of the AFL-CIO stemmed from conflict among the federation's leaders and appears unrelated to the characteristics of sample firms and directors (Chaison, 2007). Second, I find that there are no significant differences or trends in many observable balance sheet characteristics of firms whose workers stay in the AFL-CIO and firms whose workers switch to the Change to Win Coalition, suggesting a low likelihood that there are simultaneous, unobservable changes occurring at the firm or director level that are associated with the union reorganization.

If there are endogenous changes occurring at the firm or director level, then other shareholders who have incentives to monitor these developments and maximize shareholder value should vote accordingly (Shleifer and Vishny 1986, Zeckhauser and Pound 1990, and Black 1992).³ The evidence indicates that mutual fund director votes do not respond to the change in worker union affiliation spurred by the AFL-CIO's breakup. Therefore, it is unlikely that there are unobservable changes occurring at the firm or director level that are correlated with realignments in worker-union affiliations. The change in the AFL-CIO funds' voting behavior coupled with the lack of a similar response by other institutional investors suggests that firm-union labor relations have a causal effect on the director votes cast by the AFL-CIO funds.

I also examine the director voting behavior of the United Brotherhood of Carpenters and Joiners of America (UBCJA) labor union pension funds. The UBCJA, which was not a member of the AFL-CIO, joined the Change To Win coalition during its formation in 2005.⁴ UBCJA pension funds vote uniformly across sample firms and the aggregate size of their holdings studied in this paper is on the order of \$20 billion. After joining the CTW coalition, the UBCJA's funds increase their opposition to directors of firms that mainly employ CTW employees by at least 22%. In contrast, the UBCJA funds' voting behavior remains relatively constant at firms primarily affiliated with the AFL-CIO throughout the sample period. This evidence suggests that the effect of worker representation on director votes is not simply limited to funds associated with the AFL-CIO, but rather is consistent with the behavior of other union shareholders as well.⁵

I then find evidence that the AFL-CIO funds' opposition towards directors appears to serve union worker interests. Estimates of the added voting impact of plant-level conflict between labor unions and management indicate that AFL-CIO funds are at least 14% more likely to withhold support from directors when there are disputes involving either collective bargaining or the unionization of unrepresented workers. This behavior could reflect two objectives. First, the AFL-CIO funds may vote against directors to improve worker bargaining power when there is labor conflict. Second, the

³ Additionally, the presence of institutional investors at these firms is likely to provide incentives to director boards to pursue shareholder-value maximization (Allen, Bernardo, Welch 2000). For example, they may have greater incentive to nominate high quality directors.

⁴ The UBCJA was a member union of the AFL-CIO until it disaffiliated from the AFL-CIO in 2001.

⁵ This evidence also supports the central identification assumption that the union reorganization is not correlated with unobservable changes to director quality.

AFL-CIO funds may vote against directors to limit labor strife because they believe such disputes hurt shareholder value.

To distinguish between these two possible objectives, I estimate the change in sensitivity of director votes to labor strife at firms in which the AFL-CIO no longer represents workers or represents significantly fewer workers. If union-management conflict is costly to investors and the AFL-CIO funds are solely interested in maximizing shareholder value, then the union affiliation of workers involved in disputes with management should not affect the funds' votes. However, the data suggest that the AFL-CIO funds' sensitivity to labor strife decreases significantly at firms in which workers become significantly less represented, or not represented at all, by the AFL-CIO. In other words, though the AFL-CIO funds are more likely to vote against directors at firms where there is manager-union conflict, they become 21-33% less likely to oppose directors of those firms when employees leave the AFL-CIO. This change in director opposition implies that the AFL-CIO funds' proxy votes appear to be affected by labor strife primarily when the workers involved are AFL-CIO members.

I also examine alternative explanations for the voting behavior of AFL-CIO funds. First, I explore the extent to which portfolio selection decisions may bias estimates of voting patterns. Turnover in the holdings of the AFL-CIO funds does not seem to respond to the union reorganization. In particular, the AFL-CIO does not appear to adjust its holdings for or against firms whose workers belong to a specific union. Furthermore, the findings discussed above are valid for a restricted sample of firms that appear in the AFL-CIO fund portfolios both before and after the formation of the CTW. Second, I explore the impact of private information that may be gleaned by the AFL-CIO pension funds through their affiliation with workers. When the AFL-CIO no longer represents workers in a firm, the AFL-CIO funds may lose access to this private information and subsequently change their voting behavior. This hypothesis, however, is rejected by regression estimates. Third, I examine whether the voting estimates are biased by the potentially endogenous timing of AFL-CIO proxy votes and the union reorganization. This hypothesis, however, also lacks significant explanatory power.

This paper adds to several strands of literature. First, the study provides unique empirical evidence that the preferences of labor union shareholders may reflect objectives other than equity value maximization. While there is debate in the academic literature

and business press that labor unions use their pension funds to pursue worker interests, there is little data to support the numerous viewpoints. The findings in this paper support theories postulated by Romano (2001) and Schwab and Thomas (1998). Second, this paper contributes to the corporate governance literature on proxy voting.⁶ Davis and Kim (2007), Matvos and Ostrovsky (2007), and Rothberg and Lilien (2005) utilize recent, publicly disclosed data to explore various voting incentives facing mutual fund managers. In contrast, this paper utilizes data on labor union pension fund proxy votes to study the governance objectives of union shareholders. Third, this work contributes to a burgeoning literature on the role of employee stakeholders on corporate decisions and outcomes (Atannasov and Kim 2008, Chen, Kacperzyck, Molina 2008). This study suggests that union shareholder activists look towards corporate governance mechanisms as a means of furthering the goals of unionized employees. Finally, the data shed light onto policy discussions concerning potential governance reforms. One contentious issue currently facing the SEC is whether shareholders should be given greater powers over corporate affairs through increased access to annual director election ballots (see Bebchuk (2005), Harris and Raviv (2007), and Bainbridge (2006) for further discussion). Labor union activists such as the AFL-CIO generally favor greater shareholder powers as a means of improving the financial performance of firms. However, other groups such as the Business Roundtable argue that greater shareholder powers would ironically empower special-interest investors to advance their agendas at the expense of shareholder value (McKinell 2003). The underlying question in this debate is whether shareholders have disparate preferences to begin with.

The paper proceeds as follows. Section 2 provides institutional background on labor unions, a description of the natural experiment, and a discussion of proxy voting and union shareholder activism. Section 3 describes the data. Section 4 presents the empirical framework, results, and analysis. Section 5 concludes.

Section 2: Institutional Background

Labor unions have been an integral part of the American workforce over the past century. During the early 1900's, the American Federation of Labor (AFL) and the

⁶ See Hermalin and Weisbach (2003), Shleifer and Vishny (2001), and Gompers, Ishii, and Metrick (2003) for related work on boards of directors and corporate governance more generally.

Congress of Industrial Organizations (CIO) were the two preeminent labor groups in the U.S. In 1955, they merged to form the AFL-CIO, representing almost all organized workers in the American private sector. The AFL-CIO currently comprises many of the major unions in the United States such as the United Auto Workers, United Steel Workers, International Brotherhood of Electrical Workers, etc. Each member union of the AFL-CIO has local chapters that represent employees at different workplaces. The AFL-CIO is the governing body of the unions and coordinates worker representation across the national landscape. It influences regulatory reform, collective bargaining, and labor disputes with employers.

Labor unions engage in two types of activities that are governed by the U.S. National Labor Relations Boards (NLRB): collective bargaining (negotiating compensation and employment conditions with employers) and union member recruiting. Each of these functions is often a source of conflict between firms and labor organizations. A common collective bargaining dispute arises when an employer refuses to recognize union representatives when setting wages for its workers, as in the recent case of Shaw's Supermarkets (National Labor Relations Board 2007). Another typical dispute arises when unions attempt to recruit non-represented laborers into their organizations, as recent turmoil at Wal-Mart illustrates (Greenhouse 2007). When such conflicts cannot be privately resolved, a labor union or a firm may file a complaint with the NLRB, citing an Unfair Labor Practice (ULP). The NLRB will in turn mediate between the various parties to develop a resolution in accordance with federal law.⁷

While the regulations governing labor unions have remained in place since the 1930's, the size and structure of unions have changed over time. Since its peak in 1954 at approximately 25 million workers or 39.2% of the U.S. workforce, the number of organized laborers has declined to 15.4 million or 12% of the U.S. workforce in 2006 (Congressional Digest 1993; Bureau of Labor Statistics 2007). In addition to declining membership, there has more recently been a shift in union organization. On September 27, 2005, six of the largest member groups of the AFL-CIO (Teamsters, United Food and Commercial Workers, Service Employees International, UNITE HERE, United Farm Workers and the Laborers International Union of North America) formed their

⁷ In particular, the National Labor Relations Act of 1935 stipulates various conditions that must be satisfied by labor unions and employers regarding activities such as collective bargaining, new member unionization, worker strikes, etc.

own organization – the Change to Win Coalition – and consummated an exit from the AFL-CIO.⁸ Approximately 35% of the 13 million workers in the AFL-CIO switched to the CTW. The workers remained unionized and mostly subject to the collective bargaining agreements that were previously in place with their respective employers. The main impact of the union reorganization on these workers is that they are now under the umbrella of a different national entity.

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

The source of exogenous variation in the union representation of workers makes pension fund behavior a natural setting in which to examine different preferences among shareholders. Union pension funds are comprised of contributions made by both union workers and their employers. Approximately 46% of all union pension assets are invested in domestic equities as of September 30, 2006 (Appell 2007). Ownership of voting shares in a U.S. publicly traded company gives shareholders the right to cast votes in the company’s corporate elections. A typical election will call for shareholders to vote on ballot items such as nominees to the board of directors, amendments to executive compensation packages, auditor approvals, and shareholder initiated proposals. Like

⁸ The United Brotherhood of Carpenters also joined the Change to Win Coalition, however at the time it was not part of the AFL-CIO.

mutual funds and public pension funds, union funds will act as a ‘proxy’ for individual pension fund participants and cast votes on their behalf, hence the term proxy voting.

Many union pension funds in turn coordinate their proxy voting decisions by employing a third-party fiduciary to administer their votes. These fiduciaries utilize standards set by the AFL-CIO Office of Investment and communicate with union pension fund officials when voting.⁹ Marco Consulting, one of the largest proxy voting services in the U.S., is an example of one such third-party fiduciary. During the sample period studied in this paper, Marco Consulting follows proxy voting guidelines established by the AFL-CIO and casts proxy votes uniformly across many AFL-CIO affiliated union pension funds, including the ones studied in this paper. For example, in a director election for Boeing, Marco Consulting casts identical votes for all AFL-CIO affiliated funds it manages which hold Boeing shares. The aggregate size of AFL-CIO affiliated pension funds that invest in the firms studied in this paper during the sample period and that are also managed by Marco Consulting is on the order of \$100 billion in assets. ProxyVote Plus is another fiduciary that manages proxy votes for numerous pension funds belonging to the UBCJA. ProxyVote Plus also communicates with union pension fund officials and votes uniformly across the holdings of many UBCJA pension funds during this paper’s sample period. The aggregate size of the UBCJA holdings studied in this paper is on the order of \$20 billion in assets.

The AFL-CIO’s role in corporate elections is noteworthy for several reasons. AFL-CIO union pension funds are some of the most involved shareholder activists among all classes of investors that participate in elections. In 2006, union funds accounted for more shareholder proposals than any other investor group. They submitted 295 out of 699 shareholder proposals at U.S. publicly traded corporations. Public pension funds issued 31 proposals while mutual funds issued 23. The two most prolific issuers of union shareholder plans accounted for more than half of all union proposals: the AFL-CIO submitted 28 (primarily through the funds examined in this

⁹ The AFL-CIO Office of Investment produces its own set of Proxy Voting Guidelines, which are available online at: http://www.AFL-CIO.org/corporatewatch/capital/upload/proxy_voting_guidelines.pdf. In these guidelines, the AFL-CIO states that proxy votes for their pension funds should be cast in a manner ‘consistent the economic best interests of plan participants and beneficiaries’; this calls for the consideration of corporate policies which not just maximize “share value and dividend yield”, but also “corporate policies that affect employment security and wage levels of plan participants.” (AFL-CIO proxy voting guidelines, pg. 2). The findings in this paper appear consistent with these stated objectives.

paper) while the UBCJA submitted 120 (Burr 2007). Recent work suggests that such institutional investor activism has a significant impact on firms' governance decisions (Del Guercio, Seery and Woitke 2008)¹⁰.

The AFL-CIO is also instrumental in promoting financial market regulations related to corporate elections. It has influenced the passage of recent laws on mutual fund proxy voting disclosure, board independence, and outside auditors that are generally considered favorable reforms for labor union shareholders (AFL-CIO(a) 2003, AFL-CIO(b) 2003). Currently, the AFL-CIO plays an active role in promoting greater shareholder access to corporate ballots (Trumka 2003). Union shareholder activists are calling on the SEC to pass laws that would grant shareholders the right to officially appoint their own nominees to corporate boards of directors. Currently, nominees are only officially nominated on company ballots by boards.

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

The impact of labor union investors on director elections is especially relevant to the current debate over shareholder power reform facing the SEC. On July 25, 2007, SEC Chairman Christopher Cox cast the deciding vote on two contentious proposals stipulating conditions aimed at amending shareholder powers in corporate elections. In the middle of the policy debate are labor union shareholders who support proposals that increase shareholder powers. Opponents of such reform (e.g. the Business Roundtable and Wall Street Journal) argue that these changes would be subject to abuse by special-interest parties—particularly AFL-CIO affiliated labor union pension funds (McKinnel

¹⁰ See Brav, Jiang, Thomas, and Partnoy (2007) for analysis pertaining to the impact of hedge fund shareholder activism.

2003, Wall Street Journal 2006). While this paper does not address whether shareholder powers should be increased, it does find that shareholders appear to have heterogeneous preferences and that the disparate objectives of investors should be considered when discussing shareholder power reform.¹¹

Section 3: Data

3.1 Proxy Votes and Firm Characteristics

I collect annual data from the AFL-CIO Office of Investment on the equity holdings of the AFL-CIO Reserve Fund and the AFL-CIO Staff Retirement Fund from January 1, 2003 to December 31, 2006. The capital invested in these two funds, which are approximately \$180 million in size, are partially contributed by direct staff employees of the AFL-CIO.¹² The proxy votes cast by these funds (herein referred to as AFL-CIO funds) are noteworthy for two reasons. First, the funds serve as the main vehicles for the AFL-CIO's shareholder activism. The AFL-CIO uses its ownership stakes via fund holdings to issue many of its activist shareholder proposals (Burr 2007). Additionally, the proxy votes for these holdings serve as voting recommendations made to other investors. Second, through Marco Consulting, the votes cast for these portfolios are representative of the votes of AFL-CIO affiliated union pension funds whose aggregate holdings are on the order of \$100 billion in size.

Across all firms in the two funds, I observe the shareholder elections in which the AFL-CIO funds participate. For each election, I observe all ballot items such as individual director nominees, the recommendations made by the board of directors, and the votes cast by the AFL-CIO funds. For numerous director elections the nominees' names are missing. To complete the data, I refer to the original proxy statements (Forms DEF 14A, available via SEC EDGAR) for each firm. Several companies' proxy statements are not available through the SEC. Their filings are retrieved from the Investor Relations departments of the firms themselves.

Panels A and B of Table 1 contain descriptive statistics of the sample shareholder elections and proxy votes of the AFL-CIO funds. There are a total of 504 firms that hold

¹¹ Recent papers exploring this issue include Harris and Raviv (2007), Bebchuk (2005), Bainbridge (2006).

¹² It is likely that the Reserve fund's assets are partly comprised of union membership dues. Additionally, both funds likely contain a negligible fraction, if not 0%, of the retirement assets of all AFL-CIO affiliated workers employed in the private sector.

director elections at least once in the sample period for a total of 1,492 elections. On average there are approximately 7 director nominees standing for election at each company, yielding a total sample of 10,407 directors over 4 years. Director elections are the most frequent ballot items in shareholder meetings. The next two most common ballot items are stock option-related proposals and auditor appointments, which arise almost 10% as often. Boards recommend that shareholders vote in favor of all board-appointed director nominees. However, the AFL-CIO only supports approximately 65% of all candidates in the sample.

I also obtain the proxy votes cast by three mutual fund families: Fidelity, TIAA-CREF, and Vanguard. I collect their proxy votes from SEC N-PX filings for July 1, 2003 to December 31, 2006. Within each mutual fund family, I choose an individual index fund that holds a broad array of securities: the Fidelity Spartan Total Market Index fund, the Vanguard Institutional Total Stock Market Index fund, and the TIAA-CREF Equity Index Fund. For each director nominee for which the AFL-CIO funds cast a vote in the sample, I record the matching vote cast by each of the index funds. Because of the short time period for which mutual fund proxy voting data is publicly available and because there are several firms held by the AFL-CIO funds that are not in the index funds, the match across institutional investors is imperfect¹³. As Panel C of Table 1 indicates, I am able to match the votes for approximately 75% of all director nominees for each investor from July, 2003 onwards. Fidelity votes in favor of 98% of all matched sample directors. Vanguard and TIAA-CREF support 89% and 93% of all matched sample directors, respectively.

I collect proxy voting data for the UBCJA labor union pension funds for their S&P 500 investments from August 5, 2004 to December 31, 2006.¹⁴ The votes analyzed for UBCJA funds in the sample correspond to holdings on the order of \$20 billion in aggregate size. I am able to match 4,515 director votes from the AFL-CIO sample with the UBCJA sample. The relatively low match rate is due to the limited time period for which director-level data are available and because of differences in holdings. The UBCJA funds support 55% of all matched director nominees.

¹³ The SEC requires mutual fund proxy voting disclosure beginning in July, 2003.

¹⁴ The UBCJA pension fund proxy voting data is obtained from ProxyVote Plus.

The vast majority of sample firms are in the S&P 500. Table 2 presents descriptive statistics tabulated from Compustat (where available) regarding the firms held in the AFL-CIO's funds, along with S&P 500 attributes for comparison.¹⁵ Assets is the book value of assets. Equity is the market value of outstanding equity. Leverage is the ratio of long term debt to book value of equity. EBITDA is Earnings before Interest, Taxes, Depreciation and Amortization. Capital Intensity is the ratio of PPE (net Plant, Property, and Equipment) to Assets. As of 2005, the average sample firm has \$54.4 billion worth of assets while the average S&P 500 firm has assets worth \$48.4 billion. The average number of employees of sample firms is 48.3 thousand while it is 46.5 thousand for S&P 500 companies. Capital Intensity is measured to compare the production technologies across firms. The average ratio of PPE to Assets is 0.26 in the sample (0.24 for S&P 500 firms). There are no statistically significant differences at the 10% level between the balance sheet characteristics of sample firms and S&P 500 firms. Additionally, the distribution of industries of sample firms mirrors that of the S&P 500. Sample firms have some statistics which are slightly higher in magnitude than S&P 500 companies, due to the inclusion of several large international firms that have U.S. publicly traded stock but are not members of the S&P 500, such as Magna International and Honda Motor Co.

3.2 Firms' Employee-Union Labor Relations

I collect data on the union affiliations of domestic workers involved in collective bargaining activity at each of the sample firms held by the AFL-CIO funds from a variety of publicly available sources. The primary sources of data have been utilized by previous researchers (Dinardo and Lee, 2004, Cutcher-Gershenfeld and Kochan 2004, Gomez and Tzioumis 2007, are recent examples). Firm-level data on employee unionization is hand collected because there is currently no centralized, publicly available database which contains systematic information on firms' employee-union affiliations.

The primary source is the U.S. Department of Federal Mediation and Conciliatory Services (FMCS), a division of the U.S. Department of Labor. The FMCS maintains a monthly listing of F-7 notices, available through a Freedom of Information Act request. Unions are required to file F-7 notices with the FMCS 30 days prior to the expiration of an existing collective bargaining agreement. Using F-7 notices from January, 2003 to

¹⁵ I also obtain stock performance data from CRSP.

December, 2006, I collect all filings in which any union cites an expiring bargaining agreement with a firm in the sample.¹⁶ It is possible that some firms have agreements with unions that do not expire in the sample period, although most collective bargaining contracts last for approximately 3-5 years. It is also possible that some firms or unions are non-compliant with FMCS notification laws, leading to downward bias in union representation.¹⁷

I also consult various other sources of data. I inspect individual 10K's filed in 2006 for each sample company.¹⁸ Firms often mention specific labor union activity in 10K's when it is significant. Many companies also explicitly state that none of their employees belong to a union or are subject to a collective bargaining agreement. I examine the National Labor Relations Board union elections and petitions data from January, 2001 to December, 2006, which contain records of all union elections and petitions that take place at any corporation in the U.S during this period.¹⁹ For each firm in the sample, I also search the U.S. Department of Labor's public database of voluntarily provided collective bargaining agreements. I also contact the investor relations departments of several companies with unionized employees. Using these data sources, I identify whether firms have any unionized workers involved in collective bargaining, and if so, to which unions they belong. Although this data is potentially subject to measurement error, it is likely that errors are restricted to firms in which union presence is minor (such as those with downward bias in union representation) and are unlikely to affect the estimation results. Furthermore, it is likely that this measurement error causes voting pattern estimates to suffer from attenuation bias and understate the true impact of union labor interests on proxy voting.

Using all sources, I categorize firms as belonging to one of three groups. First, there are 258 non-unionized firms (e.g. Microsoft) which do not have any unionized workers in my sample. Second, there are 181 firms whose main unionized workers in the sample maintain association with the AFL-CIO throughout the entire sample period (e.g. Ford Motor Company, whose workers mostly belong to the United Auto Workers union).

¹⁶ The dates correspond to the 'Notice Date' in each filing.

¹⁷ This point is further discussed in Dinardo and Lee (2004).

¹⁸ I also collect information from 10-K's in 2003 for a large subsample of firms to corroborate information from 2006 reports.

¹⁹ NLRB elections and petitions data is obtained from Research Associates of America (RAA), a non-profit union research entity.

Herein these firms are referred to as AFL-CIO-firms. Third, there are 65 firms whose primary unionized employees switch from the AFL-CIO to the Change to Win Coalition in 2005 (e.g. Costco, where most union workers are in Teamsters unions). Herein these firms are referred to as CTW-firms. See Appendix A for further details on firm-union classification and data sources.

3.3 Employer-Union Labor Strife

I collect data on plant-level disputes between firm managers and labor unions that result in Unfair Labor Practice charges filed with the U.S. National Labor Relations Board.²⁰ The agency maintains data on all NLRA violation (ULP) charges filed by both firms and labor unions. Each charge is assigned a docket number specifying the labor union and firm involved in the dispute, the section of the NLRA in question, the filing date, and location of the conflict. I collect all dockets involving each firm in the sample, from January 1, 2002 to September 30, 2006 (the latest date of ULP data availability). Because the majority of dockets cite the specific sections of the NLRA in dispute, I am able to categorize conflict as belonging to at least one of two groups. First, I define *collective bargaining conflict* as any charge filed by labor unions against firms in violation of Section 8(a)(5) of the NLRA. Section 8(a)(5) states that employers cannot refuse to bargain collectively with employee representatives. Second, I define *unionization conflict* as any charge issued by firms against labor unions in violation of Section 8(b)(1)(A) of the NLRA. Section 8(b)(1)(A) stipulates that labor unions cannot coerce employees into either joining or avoiding a labor union. See Appendix B for a more detailed description of each section of the NLRA and the data collection process.

Table 3 contains descriptive statistics summarizing the charges of Unfair Labor Practices at sample firms in 2002.²¹ I define *strife* at a firm as a binary indicator of whether there is any unfair labor practice charge related to collective bargaining or union member recruiting involving the firm in 2002.²² There are a total of 94 AFL-CIO-firms which experience unionization conflict in 2002, while there are 29 CTW-firms which

²⁰ NLRB data is compiled by the Research Associates of America (RAA).

²¹ The choice of using 2002 data rather than 2003-2006 data on unfair labor practices is explained in Section 4.4.

²² This measure of labor strife is equivalent to an above or below the median measure of strife, as the median number of each type of charge in 2002 is 0.

experience disputes involving unionization in 2002. Similarly, there are 65 AFL-CIO-firms involved in collective bargaining strife while there are 25 CTW-firms involved in bargaining disputes. There are two important facts presented in the table. First, there does not appear to be any significant difference between the likelihood of observing a dispute involving unionization or collective bargaining at any given firm associated with either the AFL-CIO or the CTW coalition. Second, the two types of disputes characterize distinct group of firms, as the correlation measures of both dispute types are below .6 for each set of unionized firms.

Section 4: Analysis

4.1 Natural Experiment Design and Sample

There are several aspects of the identification strategy that are investigated in the data. First, because of the size and diversity of unions which disaffiliate from the AFL-CIO, the number of firms in which workers change union representation provides significant variation in the AFL-CIO's labor relations. Second, causal accounts of the AFL-CIO's breakup suggest that changes in worker representation are likely independent of changes in firm or director characteristics, thus allowing for clean identification of the AFL-CIO funds' labor objectives across companies (Chaison 2007).

Table 4 contains descriptive statistics of firms held by the AFL-CIO funds at the end of 2004 and 2005, around the breakup of the labor organization. Each column contains mean characteristics of firms grouped by affiliations of their unionized workers. These groups are: non-unionized companies, AFL-CIO-firms, and CTW-firms. Variables are defined as in Table 2.

Columns 1 and 2 indicate that in 2005 there are 140 sample firms whose unionized workers belong to the AFL-CIO during the entire sample period and 53 sample firms whose workers switch from the AFL-CIO to the CTW. The number of firms associated with each union group is similar to that of 2004. In 2005, the average market value of equity of AFL-CIO-firms is approximately \$32 billion while the average market value of equity of CTW-firms is \$23 billion. Both types of union firms have similar production technologies, as measured by capital intensity. The ratio of 2005 PPE to Assets in AFL-CIO-firms is 0.32 while the ratio is 0.30 for CTW-firms. In each year, there are no significant differences at the 10% level in the market value of equity, number

of employees, capital intensity, ROA, or asset growth between AFL-CIO-firms and CTW-firms.²³ Additionally, the average changes in these firm characteristics from 2004 to 2005 are also statistically indistinguishable at the 10% level between the two types of union firms. In results not reported here, between nonunion and unionized firms, there are statistical differences at the 10% level in *Assets*. In 2005, non-union firms had an average value of \$94 billion in book assets while union firms had an average value of \$40 billion in book assets. The difference in *Assets* is expected, however, since non-unionized firms include banks and insurance companies – industries which traditionally manage higher levels of capital than industries where firms are typically unionized.

Although fundamentally untestable, this paper's identification assumption is supported by the sample descriptive statistics in Table 4. Approximately 26% of all unionized sample firms have workers who switch union representation from the AFL-CIO to the CTW coalition. Along many observable dimensions such as market equity, ROA, asset growth, employment figures and measures of capital input intensity, AFL-CIO-firms are similar to CTW-firms before and after the formation of the CTW coalition. To the extent that these dimensions are correlated with unobservable firm and director characteristics, it is unlikely that there are significant, endogenous differences between the two types of unionized firms that are correlated with worker-union affiliation.²⁴ Perhaps more importantly, it is worth noting that differences in balance sheet characteristics across the two groups do not contradict the central identifying assumption if these characteristics are uncorrelated with factors that affect proxy votes, such as unobservable director quality²⁵. In support of this claim, I find that there are no significant differences-in-differences between the balance sheet characteristics of AFL-CIO-firms and CTW-firms around the breakup of the AFL-CIO. In summary, any changes in the AFL-CIO funds' voting behavior in response to the union reorganization

²³ Additionally, in Table 3, statistics on Unfair Labor Practices suggest there are no significant differences in the likelihood that an AFL-CIO firm or a CTW-firm is involved in a labor dispute involving unionization or collective bargaining conflict in 2002.

²⁴ The identification assumption is more strongly supported by mutual fund voting evidence presented in Section 4.3, where both observable and unobservable factors affecting director quality and shareholder value are taken into account.

²⁵ For example, Table 4 suggests that firms in the CTW sample are more likely to belong to industries with an SIC code of 61-100 while AFL-CIO constant firms are more likely to belong to industries with SIC codes of 21-40. Differences in industries, however, are not contrary to the identification assumption, as it is unlikely that static differences in industries correspond to dynamic changes in unobservable director quality for CTW firms relative to AFL-CIO-firms.

are likely to reflect the AFL-CIO's labor interests rather than their shareholder value-maximizing objectives. It is also worth noting that the differences in *Assets* between union and non-union companies suggest there could be endogenous differences in firm or director characteristics between union and non-union firms. However, these differences do not detract from the empirical strategy because the identification relies on changes in the AFL-CIO funds' voting behavior within unionized firms as a function of variation in worker-union representation – *not* on changes in voting patterns between unionized versus non-unionized firms.²⁶

4.2 Changes in AFL-CIO Voting Behavior

Figure 1 depicts the voting behavior of the AFL-CIO across 3 groups of firms—non-unionized companies, AFL-CIO-firms, and CTW-firms.²⁷ Each pair of columns shows the percentage of votes cast against director nominees across all shareholder elections in each group of firms before and after the formation of the CTW coalition on September 27, 2005.²⁸ The AFL-CIO votes against approximately 31% of all directors at non-unionized companies, while it votes against approximately 44% of all AFL-CIO-firms. For each of these two groups of firms, the voting patterns are similar before and after the formation of the CTW coalition. T-tests indicate insignificant differences at the 10% level in the percentages of votes cast for directors before and after the CTW formation. However, the contemporaneous difference in voting patterns between non-union and AFL-CIO-firms is statistically significant at the 1% level as standard errors are less than 2.5% in each column. This difference suggests that the AFL-CIO funds' director votes are affected by the AFL-CIO's labor relations. It is also possible, however, that this difference could reflect endogenous disparities in director quality between the two groups (as discussed in the Section 4.1).²⁹

The rightmost pair of columns in Figure 1 illustrates the changes in AFL-CIO fund votes for directors of CTW-firms. Prior to the formation of the CTW coalition, the

²⁶ This claim is supported by the results being robust to the exclusion of bank and insurance companies (which have higher asset values) from the sample.

²⁷ Estimates are also provided in Table 5, Panel A.

²⁸ The Change to Win coalition was officially formed in its founding convention on September 27, 2005. I use this date to demarcate an unambiguous change in labor relations between the AFL-CIO and CTW unions.

²⁹ For example, firms with greater assets may attract higher quality directors who receive greater voting support from AFL-CIO funds.

AFL-CIO funds vote against 45% of all director nominees. The voting patterns of the AFL-CIO funds at CTW-firms prior to September 27, 2005 mirror the funds' contemporaneous voting patterns at AFL-CIO-firms. T-tests reveal insignificant differences at the 10% level in the percentages of 'For' votes between the CTW-firms and AFL-CIO-firms before AFL-CIO breakup. After the union realignment however, the AFL-CIO funds vote against only 29% of all directors at CTW-firms.³⁰ This represents a significant increase (at the 1% level) in support for directors.

Figure 1 and Panel A of Table 5 do not capture the effects of additional covariates that may influence the AFL-CIO's proxy voting behavior. These factors are incorporated by estimating a difference-in-difference OLS linear probability model.³¹ The baseline specification is:

$$\begin{aligned}
 VoteMgt_{ijt} = & \alpha + \beta_1(CTW_j \times Post_t) + \beta_2(CTW_j) + \beta_3(Post_t) + \beta_4(Union_j) + \\
 & \beta_4(Union_j \times Post_t) + \beta_5(StockReturn_{jt}) + \beta_6(StockReturn_{jt} \times Post_t) + \\
 & \beta_7(Year_t) + \beta_8(Firm_j) + \varepsilon_{ijt}
 \end{aligned} \tag{1}$$

where subscripts ijt uniquely identify individual observations for nominee i , firm j , and time t . $VoteMgt_{ijt}$ is a binary indicator for whether the AFL-CIO votes against firm j management's recommendation for director i at time t . CTW_j is an indicator for whether firm j 's unionized workers switch from the AFL-CIO to the Change to Win Coalition. $Post_t$ indicates whether the election at time t takes place after the formation of the CTW coalition. $Union_j$ is an indicator for whether firm j has any unionized workers at all. $StockReturn_{jt}$ is a potentially endogenous control for firm performance. $StockReturn_{jt}$ is the market-adjusted stock return for firm j over the year preceding time t , normalized by the standard deviation of the stock's historical annual excess returns (essentially the firm's Sharpe ratio during the preceding year). Year and firm fixed effects are denoted by $Year_t$, $Firm_j$, respectively. Standard errors are robust to heteroskedasticity and clustered by election.³² The results are presented in Table 5, Panel B.

³⁰ The difference in support for directors at CTW- firms versus non-union firms after the AFL-CIO breakup could be attributed to endogenous differences in director quality between unionized and non-unionized firms, as discussed in Section 4.1.

³¹ See Card and Krueger (1994) for a good example of difference-in-difference estimation techniques.

³² The results are robust to more aggregate levels of clustering such as grouping by firm. See Petersen (2007) for further reference on clustering standard errors in corporate finance datasets.

Column 1 indicates that on average, AFL-CIO funds are 11% more likely to vote against directors of unionized firms than non-unionized firms. The estimated effect of the change in union affiliation on the director votes of the AFL-CIO funds is β_1 of Columns 2-4. Column 2 presents the difference-in-difference estimate of the effect of labor relations on AFL-CIO fund votes in director elections for the full sample of firms. In contrast to Panel A, controls are added for time trends and cross-sectional differences in votes for directors of firms with different union relations (*Post* and *CTW*, respectively). The β_1 estimate of -0.179 indicates that the AFL-CIO funds become 17.9% more supportive of director nominees of CTW-firms after the formation of the CTW coalition. This estimate is significant at the 5% level. The coefficient of *CTW* is 0.024 while the coefficient of *Post* is -.001. Neither coefficient is significant at the 10% level. The statistical insignificance of the estimated coefficients for the two controls, *CTW* and *Post*, is consistent with the hypothesis that the AFL-CIO funds do not alter their general proxy voting policies as a result of the CTW formation and the hypothesis that the AFL-CIO funds have similar cross-sectional voting patterns at AFL-CIO-firms and CTW-firms before the CTW formation. Column 3 adds year and firm fixed effects and Column 4 adds stock return covariates to control for changes in stock performance.³³ In all specifications, the data indicate that AFL-CIO funds are at least 14% to 18% more likely to vote for a firm's director nominees once the AFL-CIO no longer represents the firm's unionized workers. The results are significant at the 5% level and robust to a variety of alternative specifications.³⁴ For example, the magnitude and significance of β_1 is not sensitive to the inclusion of additional covariates such as firm balance sheet characteristics (even though these characteristics are endogenous) and the interactions of these characteristics with *Post*. Furthermore, the analysis of a probit specification rather than a linear probability model yields similar conclusions.

There are two significant patterns in the data. First, the AFL-CIO funds are more likely to vote against directors of AFL-CIO-firms than directors of non-unionized firms.

³³ Although endogenous, stock performance covariates do not significantly affect the magnitude of the difference-in-difference estimates. I include this covariate to address the hypothesis that AFL-CIO fund director votes are exclusively a function of past stock performance; the data suggest that even the inclusion of this endogenous variable as a regressor does not significantly impact the treatment effect estimates.

³⁴ It is also worth noting that the inclusion of firm fixed effects does little to affect the treatment effect estimates, even though firm fixed effects eliminate cross-sectional information that would otherwise lead to more precise treatment estimates.

Second, when workers disaffiliate from the AFL-CIO, the AFL-CIO funds become significantly more supportive of a company's board candidates. This suggests that the AFL-CIO funds' voting decisions are affected by the AFL-CIO's labor relations across firms.

4.3 Voting Behavior of Non-AFL-CIO Affiliated Institutions

4.3.1 Mutual Funds

The identification assumption central to the causal interpretation of the relationship between firm-union labor relations and union pension fund proxy voting is that changes in workers' union affiliations are independent of unobservable factors which may otherwise influence the AFL-CIO funds' proxy votes. Although the identification assumption is ultimately untestable, there are several pieces of evidence which appear consistent with the assumption. First, as discussed in Section 4.1, this assumption is motivated by the causes for the AFL-CIO's breakup (Chaison 2007). Second, the descriptive statistics in Table 4 indicate that there are no significant differences in many observable characteristics of AFL-CIO-firms and CTW-firms. Third, and perhaps most importantly, the identification assumption is also investigated by comparison of the AFL-CIO funds' proxy votes with other large institutional investors such as mutual funds.

Mutual funds are large institutions that have incentives to monitor the unobservable characteristics of firms and directors in their portfolios and use this information to cast director votes to maximize shareholder value (Shleifer and Vishny 1986, Zeckhauser and Pound 1990, and Black 1992).³⁵ Additionally, the presence of institutional investors at sample firms is likely to further induce directors to pursue shareholder value maximization (Allen, Bernardo, Welch 2000). For example, institutional ownership may encourage directors to nominate high-quality candidates to the board. If there are changes occurring at the firm or director level which are correlated with worker-union affiliation and shareholder value (observable or unobservable), then mutual funds would likely exhibit changes in voting patterns similar to those of the AFL-CIO.

³⁵ Each mutual fund produces its own set of proxy voting guidelines (available online), in which they state that their primary objective is maximizing the return for their shareholders. See, for example, Fidelity's proxy voting guidelines, available at: <http://personal.fidelity.com/myfidelity/InsideFidelity/InvestExpertise/governance.shtml>.tvsr

I estimate specification (1) for each of three mutual fund family index funds: the Fidelity Spartan Total Market Index Fund, the Vanguard Institutional Total Stock Market Index Fund, and the TIAA-CREF Equity Index Fund. These funds are chosen because of their broad stock coverage and because the voting patterns for these funds are representative of the votes cast by other funds in the same families – both actively and passively managed funds (Rothberg and Lilien, 2005). $VoteMgt_{ijt}$ is now an indicator for whether the mutual fund votes against firm j management’s recommendation for nominee i at time t . All other covariates remain the same as in Table 5, Panel B. In Table 6, for each mutual fund I present two sets of regression estimates, each corresponding to the two leftmost columns of Table 5, Panel B. This particular version of the specification estimates the largest effect of the change in union affiliation for the AFL-CIO funds’ director votes in Panel B of Table 5.

First, Columns 1, 3, and 5 indicate that mutual funds are on average more likely to vote for directors of firms with unionized workers, in contrast to the AFL-CIO funds. This suggests that unionization is not associated with unobservable, low director quality. Second, as indicated in Columns 2, 4, and 6 of Table 6, none of the three mutual funds significantly alter their director votes in response to changes in worker-union representation. In all cases, β_l is of small absolute magnitude and is statistically insignificant at the 10% level. The least insignificant coefficient is -0.056 for Vanguard. However, even if this coefficient were statistically different from 0, the magnitude of this estimate is much smaller than the -0.179 estimate for the AFL-CIO fund votes.³⁶ The mutual fund estimates are similar with the exclusion of union firms from the sample and the inclusion of other controls for stock performance, firm characteristics, etc., following the specifications of Table 5. Clustering standard errors by firm and correcting for heteroskedasticity further increases the size of standard errors and thus reduces the significance of the coefficients. I also estimate the mutual fund voting response to the CTW formation using mutual fund voting data from January 1, 2004 onwards to check for any bias resulting from the relatively greater number of total director votes cast at firms which hold annual elections after June (as the 2003 mutual fund voting data starts

³⁶ It is also worth noting that the statistical significance of other coefficients in Column 4, such as *Post*, indicate that the magnitude of β_l is likely overestimated due to omitted variables bias, such as a Vanguard-specific change in voting policy over time.

in July, 2003). However, even for this subsample, mutual funds do not significantly increase their support for directors at CTW-firms after September 27, 2005.

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

4.3.2 Brotherhood of Carpenters Labor Union Pension Funds

I also compare the AFL-CIO funds' voting behavior with the votes cast by the United Brotherhood of Carpenters and Joiners of America in many of their pension funds. The UBCJA, which was not part of the AFL-CIO from 2001 to 2005, joined the Change to Win Coalition in its 2005 inception³⁷. The union manages many affiliated local chapter funds and casts proxy votes uniformly across their holdings. The funds studied here are on the order of \$20 billion in investment. The UBCJA pension funds serve as an important group to compare with the AFL-CIO funds. UBCJA funds are activist labor union pension funds that do not have the same labor relations with firms as the AFL-CIO funds; the UBCJA is independent of any large union affiliation for the sample pre-period of January 1, 2003 to September 27, 2005, however UBCJA funds have labor relations with CTW-firms after the UBCJA joins the CTW coalition

Columns 7-8 presents the UBCJA fund voting estimates for the same empirical specification estimated for mutual funds, where $VoteMgt_{ijt}$ is now an indicator for whether the UBCJA funds vote for nominee i in firm j at time t .³⁸ Column 7 indicates that UBCJA funds are 8.1% more likely to support directors of unionized firms than

³⁷ That is, the UBCJA is independent of any large union affiliation for the sample pre-period of January 1, 2003 to September 27, 2005.

³⁸ I define $VoteMgt_{ijt} = 0$ if the UBCJA data sample states they vote explicitly 'for' a director, and $VoteMgt_{ijt} = 1$ otherwise. For 31 elections in the UBCJA sample, the votes cast for all directors in the election are listed as 'split'. For each director in these elections, I define $VoteMgt_{ijt} = .5$. The results are similar if these elections are removed from the sample or if I define $VoteMgt_{ijt} = 1$.

directors of nonunionized firms. Column 8 indicates that UBCJA pension funds become 21.7% more opposed to director nominees of CTW-firms after the UBCJA joins the CTW Coalition. Additionally, the estimates in Columns 7 and 8 are robust to the inclusion of year and firm fixed effects and stock performance controls.

The UBCJA funds' voting behavior supports two points. First, the UBCJA funds' behavior is similar to the AFL-CIO funds' behavior to the extent that director votes appear to be affected by union-firm labor relations. When the AFL-CIO is no longer affiliated with workers at sample firms, AFL-CIO pension funds appear to become more supportive of director nominees. In a sample where the UBCJA is mostly independent of larger union affiliation, the UBCJA pension funds are on average more likely to support directors of firms with unionized employees than directors of nonunionized firms. However, when the UBCJA begins affiliating with union workers of CTW-firms, the UBCJA pension funds become significantly more opposed to director nominees at these companies. The findings indicate that the potential impact of labor relations on the director votes of union pension funds is not simply limited to pension funds affiliated with the AFL-CIO, but rather is applicable to other union pension funds as well. Second, and perhaps more importantly, the lack of a negative estimate for the interaction term in Column 8 support the validity of this paper's central identifying assumption: changes in firm employee-union affiliation are independent of unobservable characteristics which affect shareholder value and hence proxy votes.

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

I estimate the added AFL-CIO fund voting impact of plant-level disputes between labor unions and management during union recruitment and collective bargaining and find that the AFL-CIO funds' voting behavior reflects union worker interests. The empirical specification of the previous section is broadened to incorporate labor strife. Correspondingly, the added identification assumption is that labor strife is uncorrelated with unobserved firm or director level attributes that affect shareholder value³⁹. The baseline regression is a triple difference-in-difference OLS linear probability model⁴⁰:

³⁹ This assumption is discussed in greater detail below.

⁴⁰ See Gruber (1994) for an example of triple difference-in-difference econometrics.

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

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

I define two unique proxies for labor strife at the firm level. $Strife_j$ (unionization) is a binary indicator of whether any Unfair Labor Practice charges were raised by firm j against a labor union for unlawful attempts at strengthening union membership at firm j in 2002. $Strife_j$ (collective bargaining) is a binary indicator of whether any Unfair Labor Practice charges were filed by a labor union against firm j for refusing to bargain collectively with worker representatives in 2002. Firms where $Strife = 1$ are assumed to have greater frequency of conflict between labor unions and managers than firms where $Strife = 0$. Data on charges from 2002, as opposed to data from the sample years 2003 to 2006, are used to more plausibly satisfy the added identification assumption that measures of labor strife are independent of unobservable firm or director characteristics which are correlated with shareholder value and hence proxy votes.⁴¹ All other covariates in Equation (2) remain as defined in Equation (1). Standard errors are robust to heteroskedasticity and clustered by election.⁴²

The coefficients of primary interest are β_5 and β_1 . β_5 is a measure of the impact of labor strife on the AFL-CIO's director votes. β_1 is a measure of how the sensitivity of director votes to labor strife changes at firms in which workers disaffiliate from the AFL-CIO. The null hypothesis is that the AFL-CIO's voting sensitivity to labor strife is uninfluenced by an exogenous change in the union affiliation of workers involved in management disputes. Included are controls for general time trends, cross-sectional and within-firm differences in AFL-CIO votes. There are also controls for interaction terms.

⁴¹ As illustrated in table 3, the relative frequency of labor conflict involving either unionization or collective bargaining is the same within each group of unionized sample firms. Additionally, pre-sample measures of labor conflict are used because pre-sample conflict is less likely to be endogenous with proxy votes cast during 2003-2006 than contemporaneous measures of labor conflict (as well as other firm characteristics, such as shareholders' private information, as discussed in Section 4.5.2). However, it is worth noting that the results are also robust to using 2003-2006 data on ULP.

⁴² The results are robust to clustering standard errors by firm.

For example, $CTW \times Post$ controls for the average effect of changes in worker-union affiliation on the AFL-CIO's votes. Tables 7 and 8 contain the regression results for each type of labor conflict.

4.4.1 Unionization Conflict

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

To distinguish these two hypotheses, Columns 2-5 presents estimates of how the sensitivity of proxy votes to labor strife changes at firms whose workers join the CTW coalition. If union-management conflict is costly to investors and the AFL-CIO is solely interested in maximizing shareholder value, then the union affiliation of workers involved with management disputes should not matter. However, the null hypothesis that β_1 is 0 is rejected by the data. Columns 2-3 indicate that the impact of changing union affiliation is especially strong when the sample of firms is restricted to companies characterized by labor strife. The treatment effect estimate of changing union affiliation is between -.310 and -.330. Columns 4-5 compare (approximately) the treatment effect estimates of changing union affiliation on AFL-CIO proxy votes for subsamples of high versus low strife firms. An increase in unionization strife at a firm is associated with a higher probability of voting against the firm's directors, however, when the firm's workers disaffiliate from the AFL-CIO, the probability of voting against directors decreases by 32%-33%. In other words, the impact of worker-union affiliation on AFL-CIO proxy votes is particularly relevant for firms where management-worker relations are tenuous.

4.4.2 Collective Bargaining Conflict

Table 8 presents estimates of collective bargaining strife on the AFL-CIO funds' director votes. The univariate regression of Column 1 indicates that AFL-CIO funds are 13.9% more likely to vote against directors at firms involved in collective bargaining disputes than for nominees at firms without comparable disagreements. This figure suggests that the AFL-CIO funds may vote against directors to express disapproval at their handling of contract negotiations. However, this figure could also reflect equity value-maximizing behavior if union funds believe contract negotiations should run smoothly to increase shareholder value.

To distinguish these motivations, Columns 2-5 present estimates of the changing sensitivity of votes to bargaining strife at CTW-firms. Columns 2-3 indicate that when the sample of firms is restricted to companies with conflict involving contract negotiations, the impact of changing labor relations on AFL-CIO proxy votes is particularly strong. The AFL-CIO funds become at least 21% more likely to support directors of firms where workers switch union affiliation primarily from the AFL-CIO to the CTW Coalition. These estimates are statistically significant at the 5% level. Columns 4-5 indicate that the change in union affiliation is not significantly different for subsamples of firms with high and low levels of contract strife. That is, the null hypothesis that β_1 is 0 is not rejected by the data. This estimate suggests that the impact of changing union affiliation is not significantly stronger in the high strife subsample of firms compared to the low strife subsample of firms.⁴³ However, it is possible that firms characterized by low levels of collective bargaining strife could be subject to other types of labor conflict, which may explain why the impact of changing union affiliation is significant for firms with both high and low collective bargaining strife.⁴⁴

Collective bargaining and unionization strife measures capture two distinct dimensions of conflict that arise between labor unions and firm managers. Using each measure of labor conflict, I find that the AFL-CIO funds vote against directors more often when unions are involved in disputes with management. These voting patterns do not appear to reflect shareholder value-maximizing behavior, as the opposition to directors is primarily limited to firms in which the AFL-CIO represents workers. Instead,

⁴³ It is possible that the additional restrictions imposed in the specifications for Columns 4-5 relative to Columns 2-3 cause measures of β_1 to be underestimated.

⁴⁴ This claim is supported by the findings in Table 7.

the AFL-CIO voting behavior is consistent with the hypothesis that the AFL-CIO funds oppose directors partly as a means of supporting union workers who face opposition from management during collective bargaining and union recruiting efforts.

4.5 Alternative Hypotheses

I explore the relevance of alternative explanations for the evidence. The results do not appear to be driven by bias resulting from AFL-CIO portfolio selection decisions or from changes in private information available to the AFL-CIO funds that may have resulted from the union reorganization. Additionally, it is unlikely that the findings are explained by the potential endogeneity of proxy voting decisions and union reorganization.

4.5.1 Portfolio Selection Bias

One alternative explanation of the findings is that the AFL-CIO funds' voting behavior is the result of endogenous stock selection for the AFL-CIO's funds. For example, in response to the changes in the AFL-CIO's structure, it is possible that the AFL-CIO funds choose to invest in CTW-firms where it is value-maximizing to support directors differentially more than previous years' holdings. Table 9 presents descriptive statistics summarizing the turnover of stocks in the AFL-CIO funds' portfolios. Because of the limited length of the time series, it is difficult to measure precisely how turnover may contribute to the change in voting. However, the data indicate that the turnover in 2006 does not appear to be significantly different from previous years. More specifically, stock holdings of either AFL-CIO-firms or CTW-firms do not seem to fluctuate in the immediate year following the AFL-CIO's reorganization relative to earlier years. I also estimate specification (1) and (2) for a subsample of firms that appear in the AFL-CIO's portfolio in 2005 and 2006, dropping stocks which are not present in both years. The results are robust for this sample.⁴⁵ Overall, it is unlikely that the estimated effects of labor relations and worker interests are driven by the inclusion of new securities in 2006 or the removal of stocks from 2005 holdings.

⁴⁵ Furthermore, the year and firm fixed effects specification in Table 5, Panel B largely reduces any potential bias resulting from cross-sectional stock additions and subtractions from the fund holdings.

4.5.2 Asymmetric Information

Another alternative explanation of the evidence is that the union reorganization caused the AFL-CIO funds to lose private information on director attributes after they stopped associating with workers of CTW-firms. This hypothesis, however, is not supported by the triple difference estimates of the voting effects of labor strife and union relations. First, measures of labor strife in 2002 are unlikely to be correlated with changes in information occurring in 2005. Second, instances of labor strife during collective bargaining and union recruitment are generally public knowledge (this paper utilizes publicly available data from the U.S. NLRB to characterize labor disputes). Third, the coefficient of $CTW \times Post$ in Columns 4-5 of Tables 7 and 8 indicates the average effect of changing union affiliation is statistically insignificant at the 10% level. If the findings were driven by information changes rather than worker interests, this coefficient should be significantly negative while the coefficient of $Strife \times CTW \times Post$ should be 0. Evidence to the contrary implies that the results reflect worker interests rather than changes in private information.

4.5.4 Endogenous Timing of AFL-CIO Fund Voting and CTW Formation

A third alternative explanation for the evidence is that the AFL-CIO was simply becoming more supportive of CTW-firms over time, and that the formation of the CTW was driven by the changing attitude of the AFL-CIO's leaders (and the AFL-CIO pension fund managers) towards the management of firms with CTW employees. This hypothesis is not supported by the data, however. First, there is no pre-period trend in the AFL-CIO voting patterns for CTW-firms; in 2003 and 2004, the AFL-CIO funds vote against directors of CTW-firms approximately 50% of the time in each year (the differences between the two years are not statistically significant). Starting in 2005, however, when conflict starts to arise among union leaders within the AFL-CIO (Chaison, 2007), the AFL-CIO becomes significantly more supportive of directors of CTW-firms. Second, the evidence that the UBCJA funds become significantly less supportive of directors at CTW-firms after the joining the CTW Coalition is unrelated to any endogenous timing of AFL-CIO voting patterns and union reorganization; rather, the evidence strongly supports the hypothesis that union pension fund proxy votes are affected by union labor relations.

Section 5: Conclusion

This paper presents evidence that suggests some labor union shareholders have board of director voting patterns that partly reflect union worker interests rather than the objectives of maximizing equity value alone. I examine the proxy votes of AFL-CIO pension funds at 504 corporations before and after the breakup of the AFL-CIO into two organizations. The AFL-CIO funds become significantly more supportive of director nominees at firms where the AFL-CIO no longer represents workers or represents significantly fewer workers due to the union reorganization. Additionally, while the union funds vote against directors more often at companies where there are plant-level disputes between labor unions and management during union recruiting and collective bargaining, the sensitivity of director votes to labor disputes decreases significantly at firms where the AFL-CIO no longer represents workers or represents significantly fewer workers.

The findings illustrate that shareholders may have heterogeneous preferences, in contrast to canonical models of shareholder objectives. The results also contribute to debate over capital market reforms by underscoring the relevance of disparate investor goals. It is important to understand the potential impact of diverse shareholder interests when evaluating regulations that increase equity investor powers, particularly with regard to the proxy voting process. Finally, the results point to interesting avenues for further research.

This paper depicts director elections as a channel through which labor union pension funds may pursue worker interests. Recent union shareholder activism against the executive compensation packages and dual class share structures of unionized firms suggests that there are additional corporate governance mechanisms through which organized workers attempt to reap gains. This activism engenders the need for standard models of corporate governance to incorporate the role of workers. It is likely that labor plays a critical part in determining governance arrangements as well as allocating total surplus amongst the firm's various stakeholders.

Appendix A:

Union Relations

I construct estimates of employee-union affiliation across all sample firms using a variety of publicly available sources. There is no centralized, publicly available database containing information on firm employee-union associations; I consult data sources that have been used by previous researchers (Dinardo and Lee, 2004, Cutcher-Gershenfeld and Kochan 2004, Gomez and Tzioumis 2007 are recent examples).

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

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

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

If a firm does not explicitly state it has union workers and there are no F-7 notices associated with the firm from 2003-2006, I categorize the firm as 'non-union'. There are several firms which suggest in the 10-K's that they employ union workers, however, I do not find an F-7 notice for these firms. For this small subsample of firms, I consult additional sources to more precisely identify employee-union affiliation. First, I look at FMCS filings for 2001-2007. This yields F-7 notices for 4 companies; using the latest F-7 notice available, I categorize the firm as AFL-CIO or CTW depending on the affiliation of the union described in the filing. The findings are similar if these 4 firms are excluded from the sample. For the remaining companies in the subsample, I then consult NLRB elections and petitions from 2001-2007 (limiting the search to elections with 20 workers

or more, following Dinardo and Lee 2004). For 2 firms, this yields union information and hence union categorization. The results are similar if we exclude these two firms from the sample. Finally, I contact the investor relations departments for remaining firms, and was able to ascertain the union affiliation of workers at 4 firms: Affiliated Computer Services and VF Corporation, which are both categorized as CTW-firms, and Decoma and Magna International, which are both categorized as AFL-CIO-firms. The results are similar if we exclude these 4 firms from the sample.

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

Appendix B:

NLRB Unfair Labor Practice data

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

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

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

Section 7 states:

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

RAA maintains a database of all individual charges (dockets) filed with the NLRB from January, 1994 to September, 2006. I search for the filings relevant to a particular firm by searching for the firm's name in the 'Employer' field of each docket in the database. If there are no unfair labor practices for a given firm, that firm is recorded as having 0 ULP. I repeat this procedure for every firm in the sample. I search amongst all ULP charges filed between January 1, 2002 and December 31, 2002 for the strife measures used in this paper.

References:

Adamy, Janet. "Safeway to Replace Three Directors." Wall Street Journal, New York, NY: May 3, 2004, pg. A.6.

AFL-CIO(a). "AFL-CIO Proxy Voting Guidelines." AFL-CIO Office of Investment, 2003. available online at: http://www.AFL-CIO.org/corporatewatch/capital/upload/proxy_voting_guidelines.pdf

AFL-CIO(b). "Mutual Fund Shareholders Win With SEC Vote." AFL-CIO Office of Investment, Press Release, January 23, 2003.

AFL-CIO. Statement by AFL-CIO President John Sweeney On SEIU, UNITE/ HERE, IBT and UFCW's Decision to Not Attend AFL-CIO Convention. AFL-CIO Press Release, July 24, 2005. Available online at: <http://www.AFL-CIO.org/mediacenter/prsptm/pr07242005.cfm>

Allen, Franklin and Antonio Bernardo and Ivo Welch. "A Theory of Dividends Based on Tax Clienteles." Journal of Finance, 55, 2000, pg. 2499-2536.

Appell, Douglas. "Top 1,000 plan assets up 8.4%." Pensions and Investments, January 22, 2007.

Atanassov, Julian and E. Han Kim. "Labor and Corporate Governance: International Evidence from Restructuring Decisions". Working Paper 2008, Forthcoming in Journal of Finance. Available at SSRN: <http://ssrn.com/abstract=898702>.

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

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

Black, Bernard. "Institutional Investors and Corporate Governance: The Case for Institutional Voice." Journal of Applied Corporate Finance, 5, 1992, pg. 19-32.

Blasi, Joseph and Michael Conti and Douglas, Kruse. "Employee Stock Ownership and Corporate Performance Among Public Companies." Industrial and Labor Relations Review, Vol. 50, No. 1, October, 1996.

Borras, Amy. "Big Labor Goes to Bat in Boardrooms." Business Week, April 15, 2004.

Brav, Alon, Wei Jiang, Randall S. Thomas and Frank Partnoy. "Hedge Fund Activism, Corporate Governance, and Firm Performance." Working Paper, 2007, Forthcoming in Journal of Finance. Available at SSRN: <http://ssrn.com/abstract=948907>.

Bureau of Labor Statistics. "Union Members in 2006." United States Dep. of Labor, Washington, D.C.: January 25, 2007.

Burger, Anna. Statement by Anna Burger, Change to Win Coalition Founding Convention. September 27, 2005, available at: <http://www.changetowin.org/for-the-media/press-releases-and-statements.html>.

Burr, Barry. "Union funds Champs of Proxy Season." Pension and Investments, February 5, 2007.

Card, David and Alan B. Krueger. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *The American Economic Review*, Vol. 84, No. 4, September 1994, pg. 772-793.

Chaison, Gary. "The AFL-CIO Split: Does It Really Matter?" *Journal of Labor Research*, May 2007, Vol. 28, No. 2, pg. 301-311.

Chen, Huafeng, Marcin T. Kacperczyk, and Hernan Ortiz-Molina. "Labor Unions, Operating Flexibility, and the Cost of Equity." May 2008, Working paper. Available at SSRN: <http://ssrn.com/abstract=931580>

Congressional Digest. "Union Membership". *Congressional Digest*: June 1993, Volume 72 Number 6-7.

Cutcher-Gershenfeld, Joel and Thomas Kochan. "Taking Stock: Collective Bargaining at the Turn of the Century." *Industrial and Labor Relations Review*, Vol. 58, No. 1, Oct., 2004, pp. 3-26.

Davis, Gerald and E. Han Kim. "Business Ties and Proxy Voting by Mutual Funds." *Journal of Financial Economics*, 2007, Vol. 85, pp. 552-570.

Del Guercio, Diane, Laura J. Seery, and Tracie Woitke. "Do Boards Pay Attention When Institutional Investor Activists 'Just Vote No'?" Working Paper, 2008. Forthcoming in *Journal of Financial Economics*. Available at SSRN: <http://ssrn.com/abstract=575242>

Dinardo, John and David Lee. "Economic Impacts of New Unionization on Private Sector Employers: 1984-2001." *Quarterly Journal of Economics*, 119(4), 2004 1383-1441.

Eckbo, Espen and Savita Verma. "Managerial Shareownership, Voting Power, and Cash Dividend Policy." *Journal of Corporate Finance* 1, 1994, pg. 33-62.

Edsall, Thomas. "Two Top unions split from AFL-CIO." *Washington Post*, July 26, 2005, pg. A01.

Faleye, Olubunmi, Vikas Mehrotra, and Randall Morck. "When Labor Has a Voice in Corporate Governance." *Journal of Financial and Quantitative Analysis*, Vol. 41, No. 3, September 2006, pg. 489-510.

Gomez, Rafael and Konstantinos Tzioumis. "What Do Unions do to CEO Compensation?" Working Paper, June 2007, Centre for Economic Performance Discussion Paper No. 720. Available at SSRN: <http://ssrn.com/abstract=1032796>

Gompers, Paul and Joy Ishii and Andrew Metrick. "Corporate Governance and Equity Prices." *Quarterly Journal of Economics*, 118(1), 2003, pg. 107-155.

Greenhouse, Steven. "Report Assails Wal-Mart Over unions." *The New York Times*, New York, NY: May 1, 2007.

Gruber, Jonathan. "The Incidence of Mandated Maternity Benefits." *American Economic Review*, June, 1994, pg. 622-641.

Harford, Jarrod, and Dirk Jenter and Kai Li. "Conflicts of Interest Among Shareholders: the Case of Corporate Acquisitions." Working Paper, November, 2006.

Harris, Milton and Artur Raviv. "Control of Corporate Decisions: Shareholders vs. Management." Working Paper, 2007.

Hermalin, Benjamin E. and Michael S. Weisbach. "Boards of Directors as an Endogenously Determined Institution: A Survey of the Economic Literature." *Economic Policy Review*, 9(1), pg. 7-26.

Jensen, Michael C. and William H. Meckling. "Rights and Production Functions: An Application to Labor-Managed Firms and Codetermination." *Journal of Business* 52, 1979, pg. 469-506.

Matvos, Gregor and Michael Ostrovsky. "Cross-ownership, Returns, and Voting in Mergers." Forthcoming in *Journal of Financial Economics*.

Matvos, Gregor and Michael Ostrovsky. "Strategic Proxy Voting." Working paper, 2007.

McKinell, Henry A., Chairman of Business Roundtable. Letter to Jonathan Katz, Secretary, Securities and Exchange Commission. December 22, 2003, available at: <http://www.sec.gov/rules/proposed/s71903/brt122203.htm>.

National Labor Relations Board. "Shaw's Supermarkets Inc." 350 National Labor Relations Board No. 55, Aug. 10, 2007.

Petersen, Mitchell. "Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches." Working Paper, April, 2007.

Romano, Roberta. "Less Is More: Making Institutional Investor Activism a Valuable

Mechanism of Corporate Governance.” 18 Yale Journal on Regulation, 174, 2001.

Rothberg, Burton and Steven Lilien. "Mutual funds and proxy voting: new evidence on corporate governance." Working paper, 2005.

Schwab, Stewart J. and Randall S. Thomas. “Realigning Corporate Governance: Shareholder Activism by Labor Unions.” Michigan Law Review, Vol. 96, No. 4. February, 1998, pg. 1018-1094.

Shleifer, Andrei and Robert W. Vishny. “Large Shareholders and Corporate Control.” Journal of Political Economy, 94, 1986, pg. 461-488.

Shleifer, Andrei and Robert W. Vishny. “Value Maximization and the Acquisition Process.” Journal of Economic Perspectives, Vol. 2, No. 1, Winter, 1988, pg. 7-20.

Shleifer, Andrei and Robert W. Vishny. "A Survey of Corporate Governance" Journal of Finance, 52, June, 1997, pg. 737-783.

Stout, Lynn A., “The Mythical Benefits of Shareholder Control,” Virginia Law Review, forthcoming. Available at SSRN: <http://ssrn.com/abstract=929530>.

Martin, Kenneth and Randall Thomas. “Should labor be allowed to make shareholder proposals?” 1998, Washington Law Review V. 73, pg. 41-80.

Trumka, Richard. Letter to SEC. AFL-CIO Office of Investment, May 15, 2003.

Tse, Tomoeh. “AFL-CIO Goes After 6 Verizon Directors.” Washington Post, April 20, 2007, pg. D01.

Wall Street Journal. "Pension Fund Blackmail." Wall Street Journal, New York, N.Y.: March 31, 2005.

Wall Street Journal. “Board Games.” Wall Street Journal, New York, N.Y.: Nov 27, 2006. p. A.12

White, Ben. "Shareholders Get Firms' Attention." Washington Post, May 21, 2004.

Zeckhauser, Richard and John Pound. "Are Large Shareholders Effective Monitors?: An Investigation of Share Ownership and Corporate Performance," in *Asymmetric Information, Corporate Finance, and Investment*, Glenn Hubbard (ed.), Chicago: University of Chicago Press, 1990, pg. 149-80.

Table 1
Proxy Voting Summary Statistics

This table presents descriptive statistics summarizing the sample shareholder elections and proxy voting behavior of various institutional investors. Panel A depicts the AFL-CIO funds' firm holdings and director elections in which they cast proxy votes. *Firms (total)* is the total number of firms held by the AFL-CIO funds in which the union funds participate in shareholder elections from Jan. 2003 to Dec. 2006. *Elections (total)* is the total number of shareholder elections in the sample. *Director Nominees (avg. per election)* is the average number of directors up for election at any given shareholder meeting. Panel B summarizes the AFL-CIO funds' voting behavior across the three most common election ballot items. *Stock Option Proposals* refers to all stock option related proposals, while *Auditor Approvals* refers to proposals appointing firm auditors. Panel C summarizes the matched director votes of each institutional investor with the AFL-CIO funds' director votes. In both Panel B and C, *Number of votes* is total number of sample votes cast during for each proposal type, and *% Support* is the percentage of institutional investor votes cast in favor of board vote recommendations to shareholders.

Panel A: AFL-CIO Director Election Statistics

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

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

	<u>Number of Votes</u>	<u>% Support</u>
Director Nominees	10,407	65%
Stock Option Proposals	1,062	16%
Auditor Approvals	1,332	38%

Panel C: Institutional Investor Director Voting Statistics

	<u>Number of Votes</u>	<u>% Support</u>
Fidelity Spartan Total Market Index Fund	7,501	98%
Vanguard Institutional Total Stock Market Index Fund	7,949	89%
TIAA-CREF Institutional Equity Index Fund	7,805	93%
United Brotherhood of Carpenters and Joiners of America Pension Funds	4,515	55%

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

This table presents descriptive statistics summarizing the characteristics of all sample firms held by the AFL-CIO funds from 2003-2006 and the S&P 500. Data is as of the end of 2005 from Compustat, where available. *Assets* (\$Bil) is the book value of assets. *Equity* (\$Bil) is the market value of outstanding equity. *Leverage* (\$Bil) is the ratio of long term debt to book value of equity. *EBITDA* (\$Bil) is Earnings before Interest, Taxes, Depreciation and Amortization. *Capital Intensity* is the ratio of *PPE* (net Plant, Property, and Equipment, in \$Bil) to *Assets*. *Employees* (Thousand) is the number of employees. Industry (2 digit SIC) refers to industry grouping based on the 2 digit SIC code of firms. It is the number of firms belonging to particular industry, as a percentage of total firms in the AFL-CIO fund holdings or the S&P 500 used to calculate descriptive statistics for balance sheet information. Standard errors are reported in parentheses.

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

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

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

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

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

This table presents descriptive statistics of characteristics of firms held by the AFL-CIO funds and firms in the *S&P 500* at the end of the years before (2004) and after (2005) the formation of the CTW. AFL-CIO fund firms are categorized into three groups – *Non-union* firms, *AFL-CIO*-firms, and *CTW*-firms. *Equity* (\$Bil) is the market value of outstanding equity. *Capital Intensity* is the ratio of *PPE* (net Plant, Property, and Equipment, in \$Bil) to book value of assets (\$Bil). *ROA* is the ratio of EBITDA to market value of assets, where market value of assets is the sum of book value of assets plus the market value of equity, minus the sum of book-valued equity and deferred taxes. *Employees* is the total number of employees (Thousands). *Asset growth* is the ratio of book value of assets in current year to previous year. 2-digit SIC refers to percentage of each column's firms in each 2-digit SIC industry group. Standard errors are in parentheses.

2004	<u>AFL-CIO</u>	<u>CTW</u>	<u>Non-union</u>	<u>S&P 500</u>
Equity	30.24 (4.25)	23.96 (5.96)	29.43 (3.36)	22.70 (1.80)
Capital Intensity	0.34 (0.02)	0.33 (0.02)	0.17 (0.02)	0.25 (0.01)
ROA	0.08 (0.00)	0.08 (0.00)	0.06 (0.00)	0.07 (0.00)
Employees	61.94 (6.02)	64.58 (10.73)	47.25 (10.81)	44.58 (4.36)
Asset Growth	1.08 (0.01)	1.10 (0.02)	1.12 (0.02)	1.12 (0.01)
<u>2-digit SIC</u>				
0-20	10%	16%	12%	10%
21-40	49%	29%	26%	40%
41-60	31%	29%	29%	27%
61-100	10%	25%	34%	23%
# Firms	147	51	173	500
2005				
Equity	32.06 (4.44)	23.43 (5.61)	30.12 (3.29)	23.50 (1.75)
Capital Intensity	0.32 (0.02)	0.30 (0.02)	0.16 (0.02)	0.24 (0.01)
ROA	0.08 (0.00)	0.08 (0.00)	0.07 (0.00)	0.08 (0.00)
Employees	64.54 (6.42)	67.91 (11.31)	46.64 (11.39)	46.54 (4.57)
Asset Growth	1.06 (0.02)	1.07 (0.03)	1.12 (0.02)	1.11 (0.01)
<u>2-digit SIC</u>				
0-20	11%	13%	12%	10%
21-40	50%	30%	27%	40%
41-60	28%	26%	28%	27%
61-100	11%	30%	33%	22%
# Firms	140	53	172	500

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

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

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

where subscripts ijt uniquely identify individual observations for nominee i , firm j , time t . $VoteMgt_{ijt} = 1$ (0) if the AFL-CIO votes against (for) firm j 's recommendation for nominee i at time t . $CTW_j = 1$ (0) if firm j is a CTW-firm. $Post_t = 1$ (0) if election takes place after (before) the CTW formation. $StockReturn_{jt}$ is the market-adjusted stock return for firm j over the year preceding time t , normalized by the standard deviation of the stock's past annual excess returns. $Union_j = 1$ (0) if firm has (no) unionized workers in either the AFL-CIO or CTW coalition. Year and firm fixed effects are denoted by $Year_t$, $Firm_j$, respectively. Standard errors, reported in parentheses, are heteroskedasticity-robust and clustered by election.

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

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

Table 5 (continued):

Panel B: Regression Analysis				
VoteMgt	(1)	(2)	(3)	(4)
CTW × Post		-0.179** (0.081)	-0.144** (0.063)	-0.138** (0.063)
CTW		0.024 (0.045)		
Post		-0.001 (0.036)	0.097 (0.086)	0.064 (0.086)
Union	0.111*** (0.024)	0.114*** (0.032)		
Union × Post		0.015 (0.061)	0.036 (0.046)	0.036 (0.046)
Stock Return				0.007 (0.017)
Stock Return × Post				-0.086* (0.051)
Constant	0.314*** (0.016)	0.314*** (0.019)	0.276*** (0.087)	0.272*** (0.088)
Year Fixed Effects	No	No	Yes	Yes
Firm Fixed Effects	No	No	Yes	Yes
Sample Firms	All	All	All	All
# of Firms	504	504	504	503
# of Observations	10,407	10,407	10,407	10,390

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

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

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

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

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

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

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

Table 7**Effects of Unionization Strife and Labor Relations on AFL-CIO Votes**

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

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

where subscripts ijt uniquely identify individual observations for nominee i , firm j , time t . $VoteMgt_{ijt} = 1$ (0) if the AFL-CIO votes against (for) firm j 's recommendation for nominee i at time t . $Strife_{jt} = 1$ (0) if there were (not) any charges filed by firm j against a labor union for unfair unionization practices in 2002. $CTW_j = 1$ (0) if firm j is a CTW-firm. $Post_t = 1$ (0) if election takes place after (before) the CTW formation. $Union_j = 1$ (0) if firm has (no) unionized workers in either the AFL-CIO or CTW coalition. Year and firm fixed effects are denoted by $Year_t$, $Firm_j$, respectively. Standard errors, reported in parentheses, are heteroskedasticity-robust and clustered by election.

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

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

Table 8**Effects of Collective Bargaining Conflict and Labor Relations on AFL-CIO Votes**

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

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

where subscripts ijt uniquely identify individual observations for nominee i , firm j , time t . $VoteMgt_{ijt} = 1$ (0) if the AFL-CIO votes against (for) firm j 's recommendation for nominee i at time t . $Strife_{jt} = 1$ (0) if there were any (zero) unfair labor practice charges filed against firm j for refusing to bargain collectively with employee representatives in 2002. $CTW_j = 1$ (0) if firm j is a CTW-firm. $Post_t = 1$ (0) if election takes place after (before) the CTW formation. $Union_j = 1$ (0) if firm has (no) unionized workers in either the AFL-CIO or CTW coalition. Year and firm fixed effects are denoted by $Year_t$, $Firm_j$, respectively. Standard errors, reported in parentheses, are heteroskedasticity-robust and clustered by election.

VoteMgt	(1)	(2)	(3)	(4)	(5)
Strife × CTW × Post				-0.152 (0.126)	-0.141 (0.126)
CTW × Post		-0.256** (0.122)	-0.210** (0.086)	-0.066 (0.093)	-0.066 (0.093)
CTW × Strife				-0.026 (0.130)	-0.051 (0.129)
Strife × Post			0.063 (0.136)	0.039 (0.065)	0.043 (0.066)
Union × Post					
Union × Strife				0.021 (0.151)	0.038 (0.149)
Union × Strife × Post	0.139*** (0.029)				
Strife		0.088 (0.067)			
Post		0.030 (0.068)	-0.109 (0.223)	0.100 (0.086)	0.067 (0.086)
Constant	0.330*** (0.013)	0.467*** (0.035)	0.557*** (0.187)	0.274*** (0.087)	0.271*** (0.088)
Firm Fixed Effects	No	No	Yes	Yes	Yes
Year Fixed Effects	No	No	Yes	Yes	Yes
Sample Firms	All	Union	All	All	All
Strife=1	No	Yes	Yes	No	No
# of Observations	10,407	3,234	3,343	10,407	10,390

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

Table 9
AFL-CIO Funds' Turnover (2003-2006)

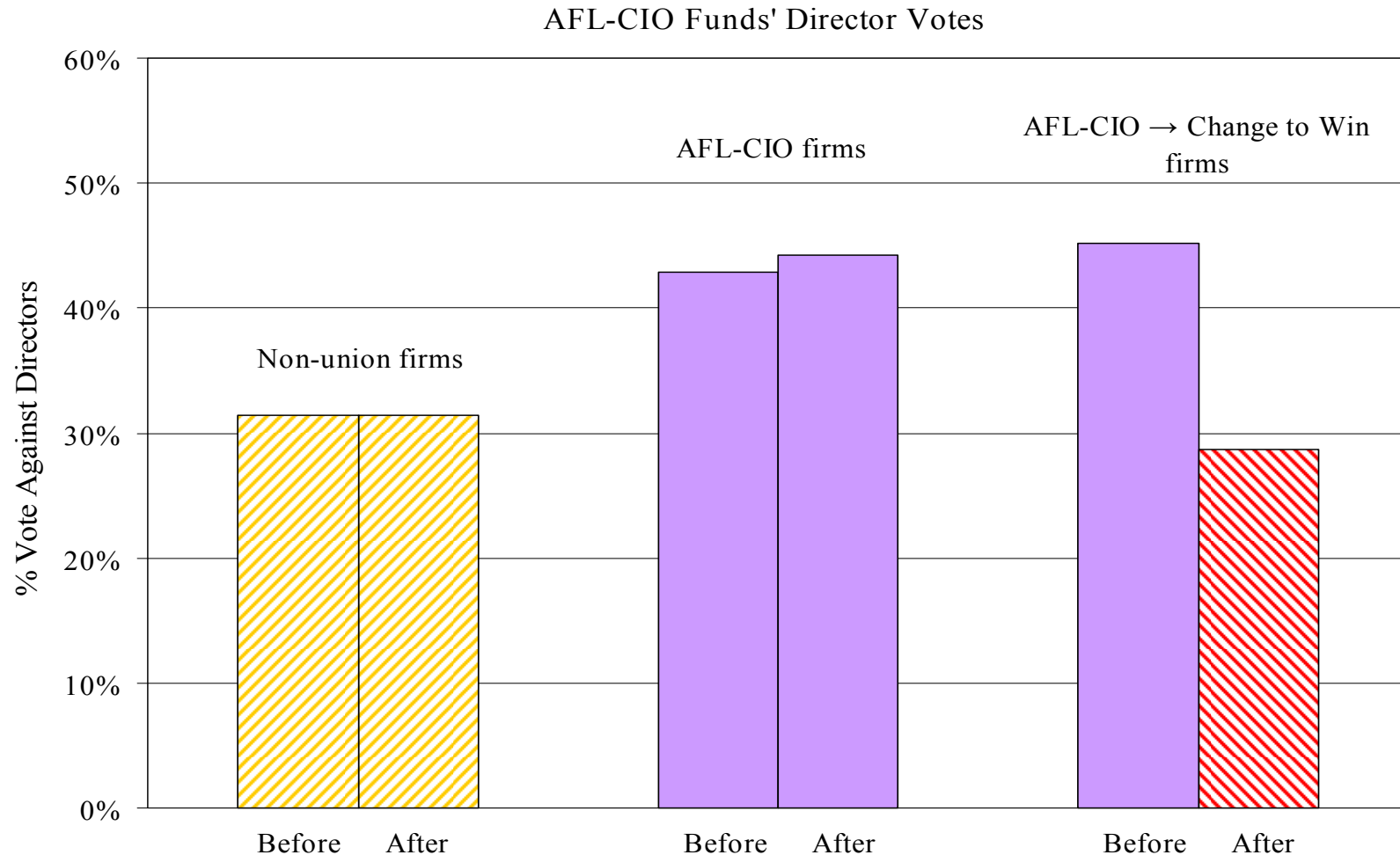
This table presents descriptive statistics summarizing the AFL-CIO Funds' holdings of sample firms in which the AFL-CIO funds participate in director elections. For each year (column), *Firms added (dropped)* is the number of firms added (dropped) to the AFL-CIO's portfolios relative to the holdings of the previous (next) year. *Unionized* firms refer to any firms in which there are unionized workers in either the AFL-CIO or the CTW Coalition. The number of firms added or dropped as a percentage of the total number of firms held in the given year's portfolio is reported in parenthesis. *Total firms* are the total number of firms that hold director elections in which the AFL-CIO funds participate.

AFL-CIO Fund Holdings	2003	2004	2005	2006
Firms Added (all)	--	73 (19%)	39 (10%)	49 (13%)
Firms dropped (all)	22 (6%)	41 (11%)	54 (14%)	--
Union Firms Added	--	33 (9%)	15 (4%)	18 (5%)
Union Firms Dropped	6 (2%)	17 (4%)	30 (8%)	--
CTW-Firms Added	--	9 (2%)	7 (2%)	5 (1%)
CTW-Firms Dropped	0 (0%)	3 (1%)	8 (2%)	--
Total firms	343	384	378	387

Figure 1

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

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



* Before and After refer to the date of the director election relative to the AFL-CIO split

** Standard Errors are at most 2.5% in each column