Debt as Threat: Evidence from Union-Sponsored Shareholder Proposals

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Abstract: This paper uses data on shareholder proposals to study how leverage affects the interaction between firms and labor unions. We find a negative association between financial leverage and shareholder proposals sponsored by unions. Our results are consistent with the idea that capital structure affects labor unions' behavior and suggest that debt deters labor unions from engaging in negotiation tactics. Additional tests indicate that the negative association between debt and union proposals is driven by governance proposals and more pronounced in firms in poorer financial condition. Our results also suggest that union proposals in firms with low level of debt are value destroying.

Keywords: leverage, capital structure, unions, labor unions, shareholder proposals

JEL classification: G32, J51, J53

1. Introduction

Firms often take strategic actions to improve their bargaining position with competitors, customers, or suppliers. A large theoretical literature discusses the ways a firm can use capital structure as a strategic variable to strengthen its bargaining position vis-à-vis stakeholders[3]. Labor unions represent an important stakeholder with the power to influence corporate decision-making and firm outcomes (e.g., Bradley et al., 2017; Chen et al., 2011; He et al., 2016; Huang et al., 2017; Lee and Mas, 2012; Tian and Wang, 2016)[4]. Previous empirical evidence has documented that firms strategically use capital structure to try to improve their bargaining power relative to labor unions. Bronars and Deere (1991) find that leverage is positively related with industry-level unionization rates. Matsa (2010) exploits changes in state laws and shows that firms reduce their leverage when the states in which they are located experience legal shocks reducing union bargaining power. While it is clear why firms have incentives to strategically use leverage in order to improve their bargaining position with labor unions, the mechanisms by which leverage plays a role in the interaction between firms and unions and the way it affects the behavior of labor unions are less well understood[5].

In this paper, we use data on union-sponsored shareholder proposals to study how leverage affects the interaction of firms with labor unions. Shareholder proposals are changes to company policies proposed and voted by shareholders and have become an increasingly important corporate governance tool. The last two decades have witnessed a dramatic surge in the number of proposals with more than 15,000 proposals at large U.S. corporations. While the shareholder proposal process has become an important corporate governance practice, an

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[3] For surveys of this theoretical literature, see Harris and Raviv (1991) and Parsons and Titman (2009)

[4] Labor unions are also generally associated with raising wages and imposing other costs on employers (Lewis, 1986).

[5] Empirical tests of capital structure decisions on stakeholders, in general, and on labor unions, in particular, are rather scarce because of the difficulty to clearly observe their behavior.

important concern is that proposals may be used opportunistically to gain concessions from management unrelated to shareholder value (Matsusaka et al., 2017a). Labor unions are one of the most prominent types of shareholder activists. As highlighted later on in the paper, unions are the organized group that sponsors the highest number of proposals. Importantly, labor unions are often alleged to have interests that differ from shareholder value (e.g., Agrawal, 2012). Matsusaka et al. (2017) provide empirical evidence that labor unions use shareholder proposals opportunistically as bargaining chips with management. They also provide some evidence that this opportunistic use of the proposal process by unions is associated with better wage outcomes for union workers.

Since union-sponsored shareholder proposals are clearly identifiable actions taken towards a firm and are unilaterally initiated by unions[6], they provide a setting close to ideal to examine the effect of capital structure on the behavior of labor unions. Better understanding how a firm's capital structure affects labor unions is an important issue for at least two reasons. First, a recent stream of literature has shown that labor unions influence a large number of corporate policies including innovation (Bradley et al., 2017), CEO compensation (Huang et al., 2017), dividend policy (He et al., 2016), tax strategies (Chyz et al., 2013), M&A activity (Tian and Wang, 2016), information disclosure (Chung et al., 2015) and cash holdings (Klasa et al., 2009). The view that labor unions have potentially significant effects on corporate decision-making and firm outcomes motivates our study of how leverage affects the interaction between firms and labor unions.

Although unions in the United States are regulated and can be altered by labor laws, their interactions with firms are also potentially influenced by firm-level strategic choices such as leverage. Second, while there is some evidence indicating that firms strategically use

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[6] The main procedure requirements are that a proponent may not submit more than one shareholder proposal per meeting and must have continuously held at least $2,000 in market value or 1 percent of the company's securities for at least one year by the date of the annual meeting.

leverage to try to improve their bargaining power relative to labor unions (e.g., Bronars and Deere, 1991; Matsa, 2010), little is known about how efficient leverage really is in affecting the interaction of a firm with labor unions. In particular, taking on additional debt may not be enough to successfully alter the behavior of labor unions and to get concessions from them.

In the empirical analysis, we explore the impact of capital structure on union-sponsored shareholder proposals using data from the Institutional Shareholders Services (ISS) Proposals database. This database provides the list of shareholder proposals received by companies in the S&P 1500 index over the period 1997-2014. Based on more than 12,000 firm-year observations, our main finding is that leverage is negatively related with both the probability of a union-sponsored proposal and with the number of shareholder proposals submitted by labor unions. This is consistent with the idea that capital structure affects labor unions' behavior and that debt deters labor unions from engaging in negotiation tactics in the form of shareholder proposals. This finding is robust to various controls, including firm and year fixed effects, financial variables, ownership variables, and CSR variables.

We then conduct additional tests in order to further assess the relevance of the deterring effect of debt on labor unions' bargaining tactics to explain the negative association between debt and union proposals. We also seek address possible omitted variable biases and endogeneity problems.

First, we explore cross-sectional variation in the effect of financial leverage on union-sponsored proposals. The rationale for using leverage as a strategic variable to improve bargaining power with labor unions is the following: by taking on additional debt and thereby increasing the demands on their cash-flows, firms can lower their (real or apparent) ability to meet union demands. This predicts that the negative impact of leverage on union proposals should be more pronounced for firms closer to financial distress. Indeed, because financial

distress and bankruptcy are bad economic states for labor[7], the impact of debt on unions'

behavior should be more effective for firms that are in poorer financial condition. We use two

indicators of financial distress based on the interest coverage ratio and Altman (1968)'s Z-

score. Consistent with a causal interpretation, we find that the negative association between

leverage and union-sponsored proposals is more pronounced for firms closer to financial

distress.

Second, we split the number of union-sponsored proposals into governance proposals

and SRI proposals. Since 1997, almost all the shareholder proposals in SRI have failed to

receive majority support and in most cases votes in support of the proposal are below 20

percent. In contrast, governance proposals receive on average stronger support. In 2013, the

average voting support for SRI proposals was 21% compared to 42% for governance

proposals (Grewal et al., 2016). The use of shareholder proposals as bargaining chips is

therefore likely to be more effective for governance proposals. If leverage influences labor

unions' behavior and deters them from engaging in shareholder activism, the negative effect

of leverage should be more pronounced for governance proposals than for SRI proposals.

Consistent with this prediction, we find that the negative impact of leverage on union-

sponsored proposals is driven by governance proposals. In contrast, leverage does not have a

significant impact on the number of union-sponsored SRI proposals.

Third, we explore the relationship between leverage and shareholder proposals by

other kinds of sponsors. Financial leverage is a strong disciplinary tool to limit managerial

discretion and to reduce the agency costs of free cash-flows (e.g., Jensen, 1986). From this

perspective, financial leverage and the shareholder proposal process may be viewed as two

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[7] The costs borne by workers during unemployment are substantial and include reductions in consumption and in
future wages (e.g., Farber, 2005; Gibbons and Waldman, 1999; Gruber, 2001), long delays before reemployment
(e.g., Katz and Meyer, 1990), as well as psychological and social costs (e.g., DeLeire and Kalil, 2010; Kalil and
Ziol-Guest, 2008).

complementary mechanisms to discipline managers and reduce agency costs. This raises the concern that financial leverage and the number of shareholder proposals may be both associated with an omitted variable such as agency costs. While it is difficult to rule out the possibility that the negative relationship between leverage and union proposals is driven by an omitted variable, we would expect the same variable to drive the relationship between financial leverage and the number of proposals from other sponsors. However, we find that financial leverage is not significantly related with the numbers of proposals from individuals, from religious groups, from special interest groups, from public pensions, from SRI funds, or from non-SRI funds. This finding mitigates, though does not eliminate, the concern that an omitted variable drives both leverage and shareholder proposals.

Fourth, we follow the 'maturing-debt' approach first introduced by Almeida et al., (2012) by using an empirical strategy which exploits heterogeneity in maturity of long-term debt across firms. Specifically, we examine the level of debt maturing at the onset of the 2008 financial crisis. A firm's maturity structure as of the beginning of the crisis is plausibly exogenous with respect to factors that might affect union-sponsored proposals. Using difference-in-differences analysis, we find that firms with larger amounts of debt due at the onset of the crisis receive significantly less union-sponsored proposals, consistent with a causal effect of leverage on labor unions' behavior.

Overall, the negative relation between financial leverage and union-sponsored proposals does not appear to be explained by an omitted variable. The combination of the aforementioned tests forms an important body of evidence that financial leverage affects labor unions' behavior and, in particular, that it deters labor unions from engaging in negotiation tactics in the form of shareholder proposals.

Our study is related to different streams of research in corporate finance. First, our paper is closely related to the literature that examines the relationship between capital structure and labor unions. Bronars and Deere (1991) and Matsa (2010) provide evidence that firms strategically use leverage to improve their bargaining power vis-à-vis labor unions. Related studies document that firms strive to improve their bargaining position against labor unions by taking other strategic actions to lower their real or apparent ability to meet union demands such as reducing cash holdings (e.g., Klasa et al., 2009) or modifying their choice of accounting policies (e.g., DeAngelo and DeAngelo, 1991; Bova, 2013; D'Souza et al., 2000; Cullinan and Knoblett, 1994). We contribute to this literature by shedding light on an important mechanism that drives the interaction between capital structure and labor unions: union activism in the form of union-sponsored shareholder proposals.

In a recent contribution, Myers and Saretto (2016) show that unions are less likely to strike when a firm has high leverage prior to a contract negotiation. Their results also provide evidence that leverage influences labor unions' behavior. Our study differs and complements the aforementioned paper in at least two important ways. First, strikes are a relatively rare event. Their sample consists of 140 strikes over the period 1993-2008. In contrast, union activism, in the form of union-sponsored proposals, is a more frequent event. Additionally, our empirical analysis covers a more recent period that allows us to capture the fact that shareholder proposals are also a more recent phenomenon that has become an increasingly important tool. Finally, strikes constitute a more "extreme" event that represents a direct expression of labor unions choosing to negotiate aggressively and is likely to occur when unions feel their bargaining position is strong. In contrast, union-sponsored shareholder proposals capture interactions between firms and labor unions at an earlier stage compared to strikes.

Second, our study adds to the growing literature showing that unions influence various corporate policies of firms. Bradley et al. (2017) document a negative effect of labor unions on firm innovation. He et al. (2016) find that unionized firms pay fewer dividends and buy back fewer shares because of increased operating risk. Chen et al. (2011) and Chen et al. (2011) find that the cost of equity is significantly higher in more unionized industries and that the cost of debt is lower in these industries. Lee and Mas (2012) show negative abnormal returns over a long period to union victories, implying that unionization destroys shareholder wealth. Chyz et al. (2013) find that unionized firms are less likely to engage in aggressive strategies. Tian and Wang (2016) show that labor unions deter takeover bids. Huang et al. (2017) find that labor unions negatively affect CEO compensation. Chung et al. (2015) document that labor unions negatively affect the frequency of news disclosures. The view that labor unions has potentially significant effects on corporate decision-making and firm outcomes is of particular interest to policy makers because unions in the United States are regulated and can be altered by labor laws and regulations over time. Our results suggest that on top of labor laws, a firm's strategic choices, in particular in terms of capital structure, also affect unions' behavior. However, our results do not imply that increasing debt is the optimal choice to limit the influence of labor unions on corporate decision-making and firm outcomes. As discussed in Hennessy and Livdan (2009) and Matsa (2010), the firm must consider the tradeoff between improved bargaining power and the costs associated with higher debt including financial distress.

Third, our results have implications concerning the current debate about the benefits and costs of the proposal process. On the one hand, shareholder proposals represent an increasingly important governance tool that allows investors to change the company's practices and policies. Previous evidence has documented that some shareholder proposals, when they pass, have a positive impact on firm value (e.g., Cuñat et al., 2012; Flammer,

2015). On the other hand, an alternative view is that shareholder proposals are potentially harmful either because they are misguided or promoted by investors seeking to get concessions from managers unrelated to shareholder value. Larcker and Tayan (2011) Larcker et al. (2015) highlight that proxy advisors can be ill-informed and therefore advise shareholders to vote in favor of proposals that are not in their interest. Matsusaka et al. (2017b) document a positive market reaction when the SEC allows management to omit a proposal from the proxy, suggesting that some proposals are value-destroying. Our results suggest a new and so far unexplored use of leverage as a strategic variable. Firms could strategically use leverage to deter investors from submitting value-destroying or opportunistic shareholder proposals. Further research is necessary to explore how firms can make strategic choices to prevent investors from using the proposal process in an opportunistic way to serve their private interests rather than firm value.

2. Data and Variables

2.1 Data sources

Our empirical analysis involves the combination of several databases. Information on shareholder proposals comes from the Institutional Shareholder Services (ISS) Proposals database (formerly RiskMetrics). This database provides the list of shareholder proposals received by companies in the S&P 1500 index over the period 1997-2014. ISS reports, among other information, the general type of the proposal (i.e., governance or corporate social responsibility), the type of the proposal sponsor (e.g., individual, religious groups, public pension, union etc.), a description of the proposal, and the outcome of the proposal. We took care to identify union-affiliated sponsors as accurately as possible. Following Matsusaka et al. (2017a), union-affiliated sponsors include private sector labor unions, retiree associations, bank controlled by unions. Leading examples of union sponsors are, among others, AFL-CIO,

Carpenters, IBEW, LiUNA, Teamsters, SEIU. Figure 1 presents the total number of proposals by sponsor type over the 1997-2014 period. Leaving aside individuals who sponsor the most proposals, unions are the most active organized group with more than 3,000 proposals. Unions submit more than twice as many proposals as religious groups, public pensions, or SRI funds, the following three most active organizations. Figure 1 highlights that unions are very active sponsors and that shareholder proposals are an important channel of the interaction of firms with labor unions.

[Insert Figure 1 about here]

Accounting data are from COMPUSTAT, data on analyst coverage are from I/B/E/S, data on Corporate Social Responsibility are from KLD and institutional investor data are from Thomson Reuters 13F Filings. We require our sample firms to have available data from these different data sources. We delete firms with nonpositive book value of equity and exclude financial and utilities companies. Our final sample consists of 12,707 firm-year observations from the S&P 1500 index over the period 1997-2014.

2.2 Variables

Our main dependent variable is the number of union-sponsored shareholder proposals. Alternatively, we also use an indicator variable equal to one if a firm receives one or more union-sponsored shareholder proposals. The main independent variable is book leverage measured as the ratio of total debt divided by total assets. In robustness tests, we also use market leverage measured as the ratio of total debt divided by the sum of market capitalization and total debt.

We include a number of firm-level controls in all tests including firm size, return on assets (ROA), cash, dividends, and market-to-book. Size is defined as the natural logarithm of total assets. ROA is computed as the ratio of income before extraordinary items to total assets.

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Cash is the ratio of cash balances over total assets. Market-to-book is the ratio of the market value of equity to the book value of equity. Previous literature indicates that firms that are larger, less profitable and with lower market-to-book ratio tend to receive more shareholder proposals (see Denes et al., 2017 for a review of the literature on shareholder activism).

Using KLD data, we also control for employee-related CSR computed by adding strengths and subtracting concerns in the area of Employee Relations. Since the number of items covered by KLD changes from year to year, we normalize the employee-related CSR score by the range of scores within each year[8]. We include employee-related CSR as a control variable for several reasons. First, a substantial fraction of shareholder proposals are CSR proposals (as opposed to governance proposals). Firms that already have high levels of CSR are therefore less likely to receive shareholder proposals. Second, unions would have lower incentives to use shareholder proposals to get concessions from management in firms that treat their employees fairly[9]. This predicts a negative relation between employee-related CSR and the number of union-sponsored proposals. Finally, previous evidence suggests a negative association between leverage and employee-related CSR or employee satisfaction (e.g., Bae et al., 2011).

Additionally, we control for institutional ownership. Institutional investors own the great majority of U.S. firms and existing evidence suggests that they exert significant power over managers and influence firms' decisions (Froot et al. 1992; Graham et al. 2005; McCahery et al. 2016; Hartzell and Starks 2003; Parrino et al. 2003). Existing evidence on the association between institutional ownership and shareholder proposals is rather mixed (e.g., Bizjak and Marquette, 1998; Ertimur et al., 2011; Karpoff et al., 1996; Renneboog and

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[8] The results are unchanged if we focus uniquely on the number of strengths in the area of Employee Relations.

[9] Note that one of the strengths in the area of Employee Relations is "Union Relations" i.e., whether or not the company has taken exceptional steps to treat its unionized workforce fairly. Unions are thus less likely to target firms with which they have good relationships.

Szilagyi, 2011). We also control for analyst coverage computed as the logarithm of one plus the average of the 12 monthly numbers of earnings forecasts (e.g., He and Tian, 2013). Financial analysts also play an important role in monitoring managers (e.g., Chen et al., 2015; Dong et al., 2017) and previous evidence suggests that firms targeted by activism on ESG issues have higher analyst coverage (Barko et al., 2017).

2.3 Empirical methodology

The main objective of our empirical analysis is to investigate the influence of financial leverage on union-sponsored shareholder proposals. In our baseline analysis, we use the two following specifications:

$$UNION\_PROPOSAL_{i,t} = \beta_0 + \beta_1 LEVERAGE_{i,t} + \beta' X_{i,t} + \gamma_i + \mu_t + \varepsilon_{i,t} \quad (1)$$

$$NUMBER\ UNION\ PROPOSALS_{i,t} = \beta_0 + \beta_1 LEVERAGE_{i,t} + \beta' X_{i,t} + \gamma_i + \mu_t + \varepsilon_{i,t} \quad (2)$$

Where $UNION\_PROPOSAL_{i,t}$ is a dummy variable equal to one if firm *i* receives one or more union-sponsored proposals in year *t*, and zero otherwise. $NUMBER\ UNION\ PROPOSALS_{i,t}$ is the number of union-sponsored shareholder proposals received by firm *i* in year *t*. $X_{i,t}$ is a vector of the control variables discussed in the previous section (i.e., size, profitability, cash, market-to-book, dividends, institutional ownership, employee-related CSR, and analyst coverage). γ_i and μ_t are respectively firm fixed effects and year fixed effects. Finally, in all regressions, we cluster standard errors at the firm level.

Following Matsusaka et al. (2017a), we estimate equation (1) with a linear probability model because it is easier to (i) implement fixed effects, (ii) interpret coefficients, and (iii) cluster the standard errors. In alternative specifications, we estimate equation (1) with a probit model including year and industry fixed effects. In equation (2), we use the number of union-

sponsored shareholder proposals rather than the log of the variable because the number of shareholder proposals is not very skewed[10].

2.4 Summary statistics

Table 1 reports summary statistics on the main variables used throughout the paper. All continuous variables are winsorized at their 1st and 99th percentiles to reduce the influence of outliers. Our two main dependent variables (*Union Proposal* and *Number Union Proposals*) indicate that nearly 10% of firm-year observations in our sample have received at least one union-sponsored shareholder proposal. They also indicate that the number of union-sponsored proposals received by a firm for a given year ranges from 0 to 6. Since the ISS database only covers firms in S&P 1500, our sample includes relatively large firms. The median firm in our sample has total assets equal to $1.8 billion. The average and median book leverage are respectively 19.9% and 19.1%. Market leverage tends to be lower that book leverage. The average market leverage in our sample is 13.8%. The median firm in our sample has a ROA of 5.8%, a market-to-book ratio of 3.4, a ratio of cash to total assets of 9.7%, and a ratio of dividends over total assets of 0.5%. The average institutional ownership in our sample is 78.6% consistent with institutional investors representing the economically most important set of shareholders. The average employee KLD score is close to zero but ranges from -0.5 to 0.8[11]. Finally, the average firm is followed by around 10 analysts. Overall, we observe that the descriptive statistics in Table 1 and comparable to those reported in prior studies.

[Insert Table 1 about here]

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[10] As mentioned, a proponent may not submit more than one shareholder proposal per meeting, which mechanically limits the number of proposals sponsored by unions for a given year and a given firm. However, in unreported tests, we check that our results are unchanged if we use the logarithm of one plus the number of union-sponsored proposals.

[11] Recall that since the number of items covered by KLD changes from year to year, we normalize the employee-related CSR score by the range of scores within each year. Our measure of employee score is therefore comprises between -1 and 1.

3. Empirical results

3.1 Leverage and union-sponsored proposals

In Table 2, we report the results from the regressions of union proposals on book leverage or market leverage and control variables. In Columns 1 and 3, the dependent variable is Union Proposal (i.e., a dummy equal to one if the firm receives at least one union proposal during the year). In Columns 2 and 4, the dependent variable is the number of union proposals. Standard errors are clustered at the firm level.

The results indicate that book leverage is negatively associated with both the probability of receiving a union-proposal and the number of union proposals. The effect is statistically significant both for the union proposal dummy and for the number of union proposals. The economic effect is relatively important. According to regression 1, a one-standard deviation increase in book leverage is associated with a decrease of 1.4% (-0.087×15.9%) in the probability of receiving a shareholder proposal. Compared to a sample mean of 9.8%, this represents a 14.2% decrease. The results on control variables deserve some attention. First, we find that the employee KLD score has a statistically significant negative coefficient in all regressions. This indicates that firms that treat employees fairly are less likely to receive union-proposals. This is consistent with the idea that unions have lower incentives to use the shareholder process to bargain with firms that have high levels of employee treatment. In line with previous literature, we find that larger firms and less profitable firms are more likely to receive shareholder proposals. Institutional ownership is not statistically associated with union proposals. This is consistent with the rather mixed evidence on the links between institutional ownership and shareholder proposals.

[Insert Table 2 about here]

In Columns 3 and 4, we report the results of the same regressions as in Columns 1 and 2 using market leverage. The results indicate that market leverage is negatively associated with both the probability of receiving a union-proposal and the number of union proposals. As for book leverage, the effect is highly statistically significant. Overall, the results from Table 2 are consistent with the idea capital structure affects labor unions' behavior. Financial leverage appears to deter labor unions from engaging in negotiation tactics in the form of shareholder proposals.

3.2 Cross-sectional variation in the effect of leverage on union-sponsored proposals

To try to address the identification issue, we explore cross-sectional variations in the impact of leverage on union proposals. If the negative relation between leverage and union proposals arises because leverage lowers the ability to meet union demands and thus deters unions from trying to get concessions from management, it should be more pronounced when firms are closer to financial distress. Financial distress and bankruptcy are bad economic states for labor, which predicts that the impact of leverage on unions' behavior should be more effective for firms that are in poorer financial condition. We use two indicators of financial distress. The first one is based on Altman (1968)'s Z-score. Since its introduction by Altman (1968), the Z-score has been used for the prediction of bankruptcy. Following the original formula, we compute the Z-score as:

$$Z = 1.2 \times T_1 + 1.4 \times T_2 + 3.3 \times T_3 + 0.6 \times T_4 + T_5 \quad (3)$$

Where T_1 is the ratio of working capital over total assets, T_2 is the ratio of retained earnings over total assets, T_3 is the ratio of earnings before interests and taxes over total assets, T_4 is the ratio of the market value of equity divided by the book value of total liabilities and T_5 is the ratio of sales over total assets. A lower Z-score therefore corresponds to a greater probability of bankruptcy. Firms with Z-score above 2.99 are considered to be safe. We create

a dummy variable that equals one if the Z-score is lower than 2.99 and zero otherwise. Our second proxy for the financial condition is based on the interest coverage ratio. We create a dummy variable that equals one if the ratio of total interest and expenses over EBITDA is greater than 25%, and zero otherwise[12].

[Insert Table 3 about here]

In Table 3, we report the results from regressions with interactions between book leverage and the indicators of financial distress. In Columns 1 and 3, the dependent variable is Union Proposal (i.e., a dummy equal to one if the firm receives at least one union proposal during the year). In Columns 2 and 4, the dependent variable is the number of union proposals.

The results indicate that the interactions between book leverage and low Z-score or low interest coverage all have a negative and significant coefficient. The results are similar for the probability of receiving a union-sponsored proposal and for the number for union-sponsored proposals. Leverage appears to affect unions' behavior and discourage unions' shareholder activism, more effectively when the possibility of financial distress is higher. This suggests that leverage provides more of a bargaining advantage for firms that face higher bankruptcy risk.

3.3 The effect of leverage on union-sponsored proposals: Governance vs SRI proposals

The ISS database classifies shareholder proposals in two broad categories, namely governance proposals and SRI proposals. Governance proposals include topics such as executive compensation, board organization or director elections. SRI proposals include topics on a

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[12] The 25% threshold is somehow arbitrary. The results are qualitatively similar for higher thresholds.

wide range of social issues such as human rights, labor practices, environmental impact or product safety.

Since 1997, almost all the shareholder proposals in SRI have failed to receive majority support and in most cases, votes in support of the proposal are below 20 percent. In contrast, governance proposals receive on average stronger support. In 2013, the average voting support for SRI proposals was 21% compared to 42% for governance proposals (Grewal et al., 2016). This implies that SRI proposals are unlikely to constitute good bargaining chips for labor unions in the negotiation with management. If leverage affects unions' behavior and deters them from using the shareholder process to get concessions from management, the negative effect of leverage should be more pronounced for governance proposals than for SRI proposals. We therefore split the number of union-sponsored proposals in its two components: the number of union-sponsored governance proposals and the number of union-sponsored SRI proposals. Similarly, we define two alternative dummies: *Union Governance Proposal* (which equals one if a firm receives at least one union-sponsored governance proposal and zero otherwise) and *Union SRI Proposal* (which equals one if a firm receives at least one union-sponsored SRI proposal and zero otherwise). We then explore the impact of leverage on union-sponsored governance and SRI proposals. The results are reported in Table 4.

[Insert Table 4 about here]

The results indicate that leverage is negatively associated with the probability of receiving a union-sponsored governance proposal and with the number of union-sponsored governance proposals. On the contrary, leverage is not statistically associated with the number of union-sponsored SRI proposals. The finding that the negative impact of leverage on union proposals is driven by governance proposals, which constitute the best bargaining chips, is consistent

with leverage deterring labor unions from using the shareholder process to get concessions from management.

3.4 Leverage and shareholder proposals from other sponsors

As discussed previously, one important concern is that our results could be driven by an omitted variable driving both financial leverage and the number of shareholder proposals. More precisely, leverage is generally considered to be a strong disciplinary tool to limit managerial discretion and to reduce the agency costs of free cash-flows (e.g., Jensen, 1986). As for shareholder proposals, they are changes to company policies proposed and voted by shareholders and thereby represent an important tool for corporate reformers to influence management. Firms with higher agency costs may therefore have more leverage and receive at the same time more shareholder proposals. While it is difficult to rule out the possibility that the negative relationship between leverage and union proposals is driven by an omitted variable such as agency costs, we would expect the same variable to drive the relationship between financial leverage and proposals from other sponsors.

In this section, we explore the relationship between leverage and the number of shareholder proposals by other kinds of sponsors. We focus on the most active types of sponsors presented in Figure 1: individuals, religious groups, special interest groups, public pensions, SRI funds, and non-SRI funds. Table 5 presents the results of the regressions of the number of proposals by each type of sponsors on leverage and control variables.

[Insert Table 5 about here]

The results indicate that leverage is not significantly related with the numbers of proposals from individuals, from religious groups, from special interest groups, from public pensions, and from SRI funds. Leverage is negatively associated with the number of proposals from non-SRI funds but the effect is hardly significant. The results on control variables indicate

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that larger firms, firms with lower market-to-book ratio, and firms with lower levels of employee-related CSR tend to receive more shareholder proposals. Overall, the results from Table 5 show that leverage is not negatively related with the number of proposals from other sponsors than unions. This indicates that leverage influences the behavior of labor unions and their choice to submit a proposal while it is not the case for other sponsors. This finding attenuates, though does not eliminate, the concern that our results may be driven by an omitted variable that drives both leverage and the number of shareholder proposals.

3.5 Debt maturity before the crisis and union-sponsored proposals

To further address the identification issue, we follow the 'maturing-debt' approach first introduced by Almeida et al. (2012) by using an empirical strategy which exploits heterogeneity in maturity of long-term debt across firms. Specifically, we examine the level of debt maturing at the onset of the 2008 financial crisis. A firm's maturity structure as of the beginning of the crisis is plausibly exogenous with respect to factors that might affect union-sponsored proposals. Moreover, it was unlikely that firms anticipated the crisis when setting maturity schedules in the preceding years. The financial crisis had a strongest impact for firms with a larger portion of maturing debt before the crisis. We exploit the differential exposure to conduct difference-in-differences analysis. Specifically, we run the following regression:

$$NUMBER\ UNION\ PROPOSALS_{i,t} = \ \beta_0 + \beta_1 TREATMENT_t \times EXPOSURE_i + \beta'X_{i,t} +$$

$$\gamma_i + \mu_t + \varepsilon_{i,t} \qquad\qquad\qquad (4)$$

Where $TREATMENT_t$ is equal to one for observations in 2008 and 2009 and zero for observations in 2006 and 2007[13]. $EXPOSURE_i$ is equal to one for firms with a larger fraction of debt maturing at the onset of the crisis. Specifically, we use the ratio of the amount of total long-term debt maturing within one year (i.e., Compustat variable *dd1*) divided by total assets.

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[13] We restrict the sample to the period 2006-2009 to focus on the period around the beginning of the crisis

$EXPOSURE_i$ is equal to one if the amount of debt due within one year scaled by total assets is above the 75th percentile for the sample and zero otherwise. Alternatively, we set $EXPOSURE_i$ equal to one if the ratio is higher than 3%, and zero otherwise[14]. $X_{i,t}$ is a vector of the main control variables (i.e., size, profitability, cash, market-to-book, dividends, institutional ownership, employee-related CSR, and analyst coverage). γ_i and μ_t are respectively firm fixed effects and year fixed effects. Table 6 presents the results from estimating equation (4) with our two definitions of $EXPOSURE_i$.

[Insert Table 6 about here]

The coefficient on Treat×exposure is negative and statistically significant in all columns, indicating that firms with larger amounts of debt due at the onset of the crisis receive significantly less union-sponsored proposals. In Columns 3 and 4, we also include leverage and find that it is also negatively associated with the number of union-sponsored proposals. The coefficient on Treat×exposure remains negative and statistically significant. Overall, the results from the 'maturing-debt' approach tend to confirm that capital structure influences the behavior of labor unions and deters them from trying to get concessions through the shareholder proposal process.

Although it is difficult to unequivocally rule out the influence of endogeneity on our results, in the light of the different results presented in Section 3, the negative relation between financial leverage and union-sponsored proposals does not appear to be explained by an omitted variable. The most plausible mechanism to explain our results is that financial leverage affects labor unions' behavior and, in particular, that it deters labor unions from engaging in negotiation tactics in the form of shareholder proposals.

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[14] These cut-offs are somehow arbitrary but unreported tests indicate that the results are not sensitive to the choice of the cut-offs.

3.6 Firm value and union-sponsored shareholder proposals

In this section, we consider the implications of the results from previous sections in terms of firm value. If proposals are purely a form of negotiation tactic to threaten the management, we should observe a negative effect on firm value. This should be especially true for governance proposals (as they pass more often than CSR ones). As debt is a deterrent for shareholder proposals, we should observe value destroying proposals only in case of low leverage: in case of high leverage the only proposals carried by the unions should be the ones done not as a pure bargaining tool and should be, if not value creating, at least not value destroying.

In Table 7, Panel A, we analyze the effect of lagged union-sponsored shareholder proposals on firms' market-to-book ratio. The effect of union proposals is negative and significant. However, once we control for the level of employee-related CSR, the number of shareholders proposals is not significant anymore.

[Insert Table 7 about here]

If we split the sample into firms with high leverage (firms whose debt level is higher than the median firm in our sample) and firm with low leverage (firms with debt level is lower than the median firm in our sample), the number of shareholder proposals in the low leverage sample is significant and negative (while it is not significant in high leverage firms), confirming our idea that, in low leverage firms, the shareholders proposals are used merely as a bargain instrument.

4. Conclusion

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Labor unions represent an important stakeholder. A growing empirical literature has found that unions have the power to influence corporate decision-making and firm outcomes. Firms often strive to improve their bargaining their bargaining position with labor unions.

We explore whether a firm's capital structure influences unions' behavior. Specifically, we find a negative association between financial leverage and shareholder proposals sponsored by unions. This result suggests that leverage deters unions from engaging in negotiation tactics through an opportunistic use of the shareholder proposal process.

Our study complements previous evidence that firms strategically use leverage to improve their bargaining power vis-à-vis labor unions (Bronars and Deere, 1991; Matsa, 2010). We shed light on an important mechanism by which capital structure affects the interaction between firms and unions: union-sponsored shareholder proposals. While shareholder proposals are not the only mechanism through which firms and labor unions interact, they represent an increasingly important governance tool and clearly identifiable actions taken by unions towards firms. Moreover, unions are the organized group that sponsors the most proposals and there is evidence that unions opportunistically use the proposal process (Matsusaka et al., 2017a).

Our study suggests a new strategic use of leverage that consists in deterring investors from using the proposal process in an opportunistic way to serve their private interests rather than firm value. While our results indicate that leverage does affect unions' behavior, they do not imply that leverage is the unique or optimal choice to improve the bargaining power with unions.

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Figure 1: Number of Shareholder Proposals by sponsor type 1997-2014
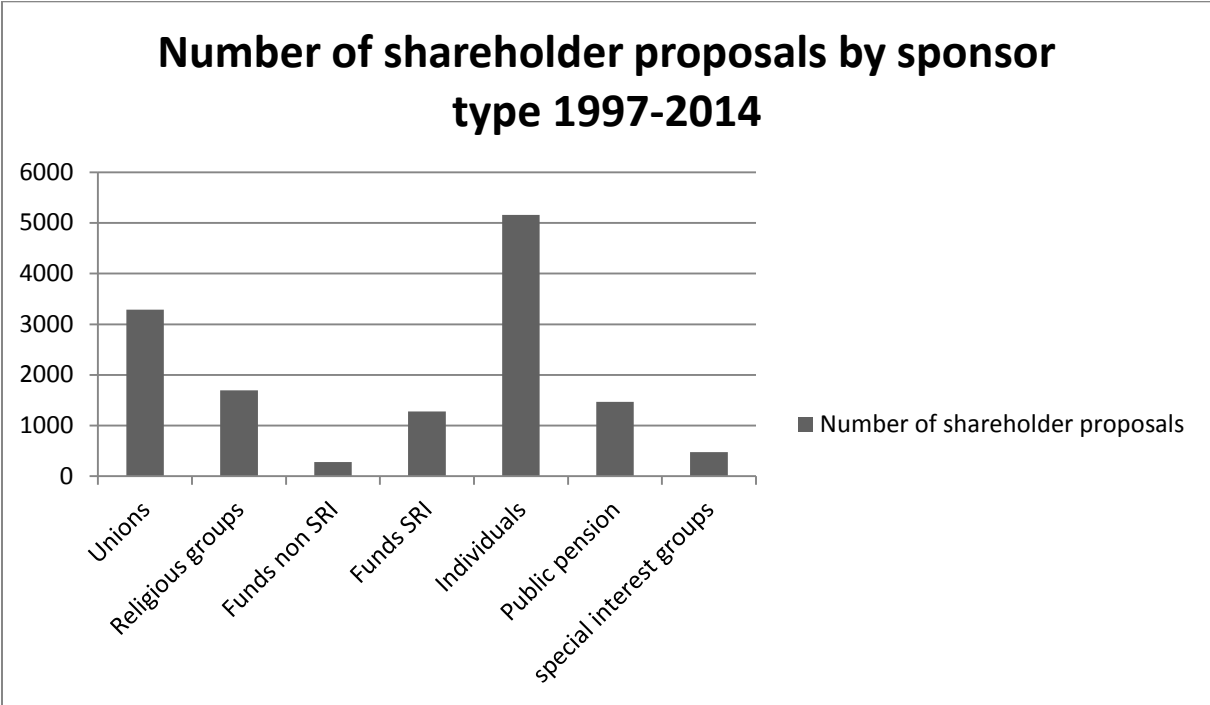
TABLE 1: DESCRIPTIVE STATISTICS

This table reports descriptive statistics for our sample firms. Target_union is a dummy variable that equal to one if a firm receives at least one union-sponsored shareholder proposal during the year. Number Union Proposal is the number of union-sponsored shareholder proposals that a firm receives. Assets is the logarithm of total assets. Leverage is total debt divided by total assets. Market Leverage is total debt divided by the sum of total debt and market value of equity. ROA is the ratio Cash is the ratio ofcash and equivalents to total assets. MTB is the market-to-book ratio computed as market value of equity divided by book value of equity. Dividends is the ratio of dividends to total assets. IO is institutional ownership defined as the number of shares held by institutional investors divided by the total number of shares outstanding. Emp_CSR is the adjusted KLD score in the area of Employee relations. Analyst Coverage is the number of sell-side analysts following the firms. All continuous variables are winsorized at the 1st and 99th percentiles.

	N	mean	p50	sd
Target_union	12,267	0.100	0	0.300
Number Union Proposal	12,267	0.144	0	0.503
Assets	12,267	7.7	7.5	1.5
Leverage	12,267	19.9	19.1	15.9
Market Leverage	12,267	13.3	10.8	12.7
ROA	12,267	5.4	5.8	8.2
Cash	12,267	15.6	9.7	16.1
MTB	12,267	3.4	2.4	3.2
Dividends	12,267	1.3	0.5	2.0
IO	12,267	78.6	80.6	15.3
Emp_CSR	12,267	0.005	0.000	0.136
Analyst coverage	12,267	2.3	2.4	0.6

TABLE 2: LEVERAGE AND UNION PROPOSALS

This table reports the results from firm fixed effects regressions. The dependent variable in Columns 1 and 3 is a dummy equal to one if the firm receives at least one union-sponsored shareholder proposal. The dependent variable in Columns 2 and 4 is the number of union-sponsored proposals. The main independent variable is Leverage or Market Leverage. All regressions include the following firm-specific variables: Assets, ROA, Cash, MTB, Dividends, IO, Emp_CSR, and Analyst Coverage as well as firm and year fixed effects. Robust standard errors clustered by firm are in parentheses. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) target_union	(2) Nb union proposals	(3) target_union	(4) Nb union proposals
Assets	0.0564***	0.0951***	0.0581***	0.0960***
	(0.0123)	(0.0200)	(0.0124)	(0.0202)
Leverage	**-0.0887****	**-0.176****		
	(0.0378)	**(0.0620)**		
Market_leverage			**-0.137****	**-0.228****
			(0.0498)	**(0.0832)**
ROA	-0.0909*	-0.251***	-0.104**	-0.263***
	(0.0481)	(0.0935)	(0.0481)	(0.0922)
Cash	-0.00317	0.0329	-0.00271	0.0359
	(0.0388)	(0.0697)	(0.0389)	(0.0701)
MTB	-2.24e-05	-0.00150	-0.000972	-0.00336
	(0.00185)	(0.00301)	(0.00176)	(0.00285)
Dividends	0.173	0.296	0.162	0.279
	(0.239)	(0.347)	(0.239)	(0.346)
IO	-0.0367	0.0209	-0.0430	0.0102
	(0.0408)	(0.0677)	(0.0409)	(0.0676)
Emp_CSR	-0.141***	-0.203***	-0.142***	-0.205***
	(0.0358)	(0.0630)	(0.0359)	(0.0631)
Analyst Coverage	-0.00701	-0.0119	-0.00765	-0.0123
	(0.0118)	(0.0218)	(0.0118)	(0.0218)
Constant	-0.433***	-0.758***	-0.435***	-0.755***
	(0.0822)	(0.139)	(0.0819)	(0.139)
Observations	12,267	12,267	12,267	12,267
R-squared	0.393	0.411	0.393	0.411
year FE	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
Adj. R-squared	0.294	0.316	0.294	0.316

TABLE 3: LEVERAGE AND UNION PROPOSALS WITH INTERACTION TERMS

This table reports the results from firm fixed effects regressions. The dependent variable in Columns 1 and 3 is a dummy equal to one if the firm receives at least one union-sponsored shareholder proposal. The dependent variable in Columns 2 and 4 is the number of union-sponsored proposals. The main independent variable is Leverage and the interactions between Leverage and a low-Z-score dummy or a low-interest coverage dummy. Low-Z-score is equal to one if a firm has an Altman (1968)'s Z-score lower than 2.99. Low-interest-coverage is equal to one if a firm has a ratio of total interest and expenses over EBITDA greater than 25%, and zero otherwise. All regressions include the following firm-specific variables: Assets, ROA, Cash, MTB, Dividends, IO, Emp_CSR, and Analyst Coverage as well as firm and year fixed effects. Robust standard errors clustered by firm are in parentheses. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) Target_union	(2) Nb union proposals	(3) Target_union	(4) Nb union proposals
Assets	0.0586***	0.0956***	0.0585***	0.0977***
	(0.0137)	(0.0217)	(0.0127)	(0.0205)
Leverage	-0.0129	-0.0470	-0.0673*	-0.136**
	(0.0469)	(0.0712)	(0.0395)	(0.0634)
Low Z-score	0.0565*	0.0761*		
	(0.0305)	(0.0462)		
Leverage ×low Z-score	**-0.230***	**-0.315**		
	(0.0836)	**(0.126)**		
Low interest cov			0.0668**	0.120**
			(0.0327)	(0.0545)
Leverage×Low interest cov			**-0.215**	**-0.386**
			(0.0950)	**(0.153)**
ROA	-0.0333	-0.0920	-0.0912*	-0.254**
	(0.0487)	(0.0691)	(0.0534)	(0.0999)
Cash	-0.0466	-0.0335	0.0118	0.0596
	(0.0428)	(0.0637)	(0.0433)	(0.0771)
MTB	-0.00119	-0.00415	9.59e-05	-0.00156
	(0.00200)	(0.00324)	(0.00190)	(0.00310)
Dividends	0.149	0.0224	0.242	0.353
	(0.333)	(0.461)	(0.266)	(0.391)
IO	-0.0481	-0.0392	-0.0541	-0.00951
	(0.0473)	(0.0725)	(0.0427)	(0.0690)
Emp_CSR	-0.146***	-0.227***	-0.138***	-0.204***
	(0.0381)	(0.0628)	(0.0370)	(0.0643)
Analyst coverage	-0.00750	-0.00416	-0.00774	-0.0111
	(0.0143)	(0.0267)	(0.0124)	(0.0233)
Constant	-0.447***	-0.748***	-0.436***	-0.756***
	(0.0936)	(0.151)	(0.0848)	(0.142)
Observations	10,222	10,222	11,488	11,488
R-squared	0.396	0.421	0.398	0.422
year FE	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
Adj. R-squared	0.289	0.318	0.297	0.325

TABLE 4: UNION PROPOSALS AND LEVERAGE: GOVERNANCE VS SRI PROPOSALS

This table reports the results from firm fixed effects regressions. The dependent variable in Columns 1 and 2 is respectively the number of union-sponsored SRI proposals and the number of union-sponsored governance proposals. In Columns 3 and 4, the dependent variable is respectively a dummy equal to one if the firm receives at least one union-sponsored SRI shareholder proposal., and respectively a dummy equal to one if the firm receives at least one union-sponsored governance shareholder proposal. The main independent variable is Leverage. All regressions include the following firm-specific variables: Assets, ROA, Cash, MTB, Dividends, IO, Emp_CSR, and Analyst Coverage as well as firm and year fixed effects. Robust standard errors clustered by firm are in parentheses. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) Nb Union SRI proposals	(2) Nb Union Governance proposals	(3) target_union_ sri	(4) target_union_ gov
Assets	0.0143***	0.0808***	0.0138***	0.0518***
	(0.00523)	(0.0186)	(0.00482)	(0.0117)
Leverage	**-0.0116**	**-0.165***	**-0.00940**	**-0.0900****
	(0.0161)	**(0.0565)**	**(0.0148)**	**(0.0365)**
ROA	-0.0286	-0.222**	-0.0334*	-0.0806*
	(0.0204)	(0.0877)	(0.0192)	(0.0463)
Cash	0.00911	0.0238	0.00934	-0.00481
	(0.0133)	(0.0678)	(0.0129)	(0.0390)
MTB	-0.000165	-0.00134	3.96e-06	-0.000506
	(0.000837)	(0.00275)	(0.000817)	(0.00177)
Dividends	0.128	0.168	0.125*	0.165
	(0.0855)	(0.320)	(0.0761)	(0.227)
IO	0.000115	0.0208	-0.00186	-0.0350
	(0.0154)	(0.0649)	(0.0136)	(0.0406)
Emp_CSR	-0.0199	-0.183***	-0.0251	-0.123***
	(0.0208)	(0.0584)	(0.0175)	(0.0350)
Analyst coverage	-0.000749	-0.0111	-0.00115	-0.00463
	(0.00539)	(0.0188)	(0.00476)	(0.0114)
Constant	-0.101***	-0.657***	-0.0948***	-0.410***
	(0.0369)	(0.129)	(0.0317)	(0.0783)
Observations	12,267	12,267	12,267	12,267
R-squared	0.225	0.388	0.219	0.374
year FE	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
Adj. R-squared	0.0990	0.288	0.0915	0.273

TABLE 5: LEVERAGE AND SHAREHOLDER PROPOSALS FROM OTHER SPONSORS

This table reports the results from firm fixed effects regressions. The dependent variable is the number of proposals from different sponsors. The sponsor is indicated at the top of each column. The main independent variable is Leverage. All regressions include the following firm-specific variables: Assets, ROA, Cash, MTB, Dividends, IO, Emp_CSR, and Analyst Coverage as well as firm and year fixed effects. Robust standard errors clustered by firm are in parentheses. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) Individuals	(2) Religious Groups	(3) Special interest	(4) Public pensions	(5) Non-SRI funds	(6) SRI funds
Assets	0.0932***	0.0392**	0.00434	0.0380***	0.00857	0.0448***
	(0.0255)	(0.0168)	(0.00863)	(0.0145)	(0.00588)	(0.0137)
Leverage	**0.179***	**-0.0362**	**0.0294**	**0.00855**	**-0.0205**	**-0.0198**
	(0.0933)	**(0.0507)**	**(0.0283)**	**(0.0372)**	**(0.0155)**	**(0.0405)**
ROA	0.0655	-0.0411	0.0238	-0.0109	-0.00578	-0.00162
	(0.0753)	(0.0441)	(0.0242)	(0.0375)	(0.0146)	(0.0389)
Cash	0.0319	0.0219	0.00189	0.00837	-0.00694	0.000134
	(0.0625)	(0.0294)	(0.0199)	(0.0380)	(0.0138)	(0.0415)
MTB	-0.0169***	-0.000638	-0.00331*	0.000289	2.12e-05	0.000808
	(0.00604)	(0.00328)	(0.00173)	(0.00202)	(0.000545)	(0.00206)
Dividends	0.271	0.323	0.410*	-0.00813	0.0372	0.249
	(0.462)	(0.205)	(0.245)	(0.234)	(0.0758)	(0.213)
IO	-0.0239	0.0348	-0.0371**	0.0253	-0.0128	-0.0291
	(0.0726)	(0.0404)	(0.0176)	(0.0365)	(0.0109)	(0.0345)
Emp_CSR	-0.201**	0.00593	-0.00491	-0.0282	0.000476	-0.0767**
	(0.0791)	(0.0432)	(0.0268)	(0.0410)	(0.0148)	(0.0377)
Analyst Coverage	-0.0246	0.00843	-0.00527	0.00122	-0.00191	0.0107
	(0.0228)	(0.00892)	(0.00628)	(0.0114)	(0.00380)	(0.00896)
Constant	-0.681***	-0.239*	-0.0204	-0.361***	-0.0423	-0.362***
	(0.166)	(0.125)	(0.0525)	(0.0940)	(0.0372)	(0.0920)
Observations	12,267	12,267	12,267	12,267	12,267	12,267
R-squared	0.683	0.561	0.376	0.282	0.153	0.390
year FE	YES	YES	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES	YES	YES
Adj. R-squared	0.631	0.490	0.274	0.165	0.0150	0.291

TABLE 6: EXOGENOUS SHOCK: DEBT MATURITY BEFORE THE CRISIS AND UNION PROPOSALS

This table reports firm fixed effect regressions. The sample period is restricted to 2006-2009. The dependent variable is the number of union proposals sponsored by unions. Treatment is a dummy variable equal to 1 for observations in 2008 and 2009 and zero for observations in 2006 and 2007. Exposure is a dummy variable equal to one for firms with a fraction of short-term debt maturing at the onset of the crisis higher than 3%. Exposure2 is a dummy variable equal to one for firms with a fraction of short-term debt maturing at the onset of the crisis in the top quartile. Robust standard errors are reported in parenthesis. All regressions include the following firm-specific variables: Assets, ROA, Cash, MTB, Dividends, IO, Emp_CSR, and Analyst Coverage as well as firm and year fixed effects. Robust standard errors clustered by firm are in parentheses. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1) Nb union proposals	(2) Nb union proposals	(3) Nb union proposals	(4) Nb union proposals
Treat×Exposure	**-0.0930****		**-0.0939****	
	(0.0417)		**(0.0418)**	
Treat×Exposure2		**-0.0755****		**-0.0746****
		(0.0340)		**(0.0340)**
Assets	0.0924*	0.0894*	0.115**	0.111**
	(0.0501)	(0.0500)	(0.0560)	(0.0558)
Leverage			-0.221*	-0.210*
			(0.125)	(0.125)
ROA	-0.195*	-0.191*	-0.253**	-0.246**
	(0.105)	(0.105)	(0.115)	(0.114)
Cash	0.118	0.121	0.120	0.123
	(0.107)	(0.107)	(0.107)	(0.107)
MTB	-0.00102	-0.000672	0.00180	0.00200
	(0.00574)	(0.00571)	(0.00625)	(0.00622)
Dividends	-0.104	-0.0982	-0.0998	-0.0930
	(0.741)	(0.740)	(0.746)	(0.745)
IO	0.0741	0.0719	0.0672	0.0653
	(0.115)	(0.114)	(0.116)	(0.116)
Emp_CSR	-0.0122	-0.0244	-0.0131	-0.0254
	(0.170)	(0.170)	(0.171)	(0.171)
Analyst Coverage	-0.0797**	-0.0783**	-0.0820**	-0.0806**
	(0.0333)	(0.0332)	(0.0334)	(0.0334)
Constant	-0.417	-0.398	-0.541	-0.517
	(0.340)	(0.339)	(0.369)	(0.368)
Observations	3,510	3,510	3,505	3,505
R-squared	0.641	0.641	0.641	0.641
year FE	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
Adj. R-squared	0.500	0.500	0.500	0.500

TABLE 7, PANEL A: FIRM VALUE AND UNION PROPOSALS

This table reports the results from firm fixed effects regressions. The dependent variable is market-to-book ratio.. The main independent variable is the lagged number of union proposals or the lagged number of union proposals in governance. All regressions include the following firm-specific variables: Assets, Leverage ROA, Cash, MTB, Dividends, IO, Emp_CSR, and Analyst Coverage as well as firm and year fixed effects. Robust standard errors clustered by firm are in parentheses. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) MTB	(2) MTB	(3) MTB	(4) MTB
L.nbunionproposal	-0.130*** (0.0495)		-0.0636 (0.0468)	
L.nbgovproposals_union		-0.132** (0.0536)		-0.0652 (0.0497)
Assets			-1.610*** (0.169)	-1.610*** (0.169)
Leverage			4.557*** (0.578)	4.557*** (0.578)
ROA			4.788*** (0.564)	4.789*** (0.564)
Cash			1.436*** (0.508)	1.435*** (0.508)
Dividends			12.90*** (3.261)	12.89*** (3.260)
IO			1.644*** (0.457)	1.644*** (0.457)
Analyst Coverage			0.569*** (0.127)	0.569*** (0.127)
Emp_CSR			-0.641** (0.310)	-0.640** (0.309)
Constant	4.514*** (0.258)	4.513*** (0.259)	11.96*** (1.128)	11.96*** (1.128)
Observations	11,630	11,630	11,630	11,630
R-squared	0.691	0.691	0.727	0.727
year FE	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
Adj. R-squared	0.640	0.640	0.682	0.682

TABLE 7, PANEL B, FIRM VALUE AND UNION PROPOSALS

This table reports the results from firm fixed effects regressions. The dependent variable is market-to-book ratio.. The main independent variable is the lagged number of union proposals or the lagged number of union proposals in governance. In Columns 1 and 2, the sample is restricted to firms with leverage below the median. In Columns 3 and 4, the sample is restricted to firms with leverage above the median. All regressions include the following firm-specific variables: Assets, Leverage ROA, Cash, MTB, Dividends, IO, Emp_CSR, and Analyst Coverage as well as firm and year fixed effects. Robust standard errors clustered by firm are in parentheses. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1) MTB	(2) MTB	(3) MTB	(4) MTB
L.nbunionproposal	-0.0466	-0.137*		
	(0.0663)	(0.0728)		
L.nbgovproposals_union			-0.0285	-0.167**
			(0.0680)	(0.0798)
Assets	-1.581***	-1.126***	-1.583***	-1.125***
	(0.233)	(0.221)	(0.233)	(0.221)
Leverage	6.836***	2.126**	6.840***	2.124**
	(1.141)	(0.867)	(1.141)	(0.868)
ROA	4.558***	4.734***	4.566***	4.734***
	(0.978)	(0.722)	(0.978)	(0.722)
Cash	0.943	1.301**	0.932	1.303**
	(0.944)	(0.569)	(0.942)	(0.568)
Dividends	33.63***	6.048**	33.60***	6.053**
	(8.578)	(3.010)	(8.577)	(3.011)
IO	2.116***	1.266**	2.117***	1.266**
	(0.754)	(0.592)	(0.754)	(0.593)
Analyst Coverage	0.576***	0.369**	0.576***	0.368**
	(0.190)	(0.177)	(0.190)	(0.177)
Emp_CSR	-0.173	-0.687	-0.169	-0.686
	(0.386)	(0.481)	(0.385)	(0.480)
Constant	10.72***	11.74***	10.75***	11.73***
	(1.773)	(1.524)	(1.771)	(1.523)
Observations	5,063	6,831	5,063	6,831
R-squared	0.814	0.753	0.814	0.753
year FE	YES	YES	YES	YES
FIRM FE	YES	YES	YES	YES
Adj. R-squared	0.766	0.687	0.766	0.687