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An analysis of withdrawn shareholder proposals

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Abstract

Purpose – *This study aims to analyze withdrawn shareholder proposals to gain insight into the role of shareholder proposals in the governance of public corporations.*

Design/methodology/approach – *A cursory look at the data suggests that unions are the most likely group to withdraw proposals. The authors focus on the behavior of unions and find that unions often resubmit a shareholder proposal which had garnered significant support in the previous year, only to withdraw the proposal in the second year.*

Findings – *The contention is that the proposals were withdrawn in Year 2 because the issue was settled in a manner agreeable to the union. Furthermore, this research suggests that unions are more likely to withdraw proposals when the prior years' appeal is higher, when firms have a record of poor performance, lower insider ownership or relatively independent boards. This phenomenon suggests that unions submit and withdraw shareholder proposals strategically. The authors contend that unions use shareholder proposals and the withdrawal of proposals to improve conditions for union workers at the expense of shareholder value.*

Practical implications – *This study suggests that unions submit and withdraw shareholder proposals strategically. The authors contend that unions use shareholder proposals and the withdrawal of proposals to improve conditions for union workers at the expense of shareholder value.*

Keywords *Control, Corporate governance, Corporate finances*

Paper type *Research paper*

1. Introduction

Most public firms have widespread equity ownership. Because of the scattered shareholder base, it is difficult for minority shareholders to monitor management activity and almost impossible to influence management behavior. To facilitate the ability of minority shareholders to express their concerns as equity owners, the US Securities and Exchange Commission (SEC) allows shareholders with a $2,000 common stock ownership position to submit a shareholder proposal. However, shareholder proposals are non-binding in nature, indicating that no matter how popular they might be among shareholders, management is not obligated to settle them. Even so, many shareholder proposals are submitted and voted on each year.

Our work revealed that a significant number of proposals are withdrawn. The majority of the withdrawn proposals are from unions. Indeed, unions are a unique group of stakeholders because of their status as both shareholders and labor representatives. While most readers know of the union role in labor negotiations, few realize the significance of unions as stockholders. As Marens (2008) points out, unions use their powers to not only bargain for the benefits for their members, but also to direct efforts toward their self-serving agendas and political interests. Union influence is more pronounced in small public companies, particularly if the founding family retains a dominant role in the company's affairs. The motives behind the shareholder activism sponsored by unions are mixed in the literature. Marens (2007, 2008) and Goodman *et al.* (2001) show that unions can exert a degree of influence over the investment policies of some of the public pension funds and often guide their policies with regard to the voting of proxies and the proposing of shareholder resolutions. Agrawal (2012) and Larcker and Tayan (2012) find that union funds tend to pursue labor union objectives rather than the maximization of shareholder value *per se*. Comparable conclusions are obtained in Romano (2001), Bainbridge (2006) and Anabtawi and Stout (2008). On the other hand, Prevost *et al.* (2012) show that unions can help enhance shareholder value by spurring changes in corporate governance. After all, union funds are subject to The Employee Retirement Income Security Act of 1974 (ERISA) regulations as well as market forces. From a different perspective, the study by Parthiban *et al.* (2007) finds that proposals sponsored by salient shareholders, such as unions, are more likely to be settled; however, the settlement does not result in improvements in the social performance of the firm.

Despite the existence of prior studies, it remains a puzzle as to why unions withdraw proposals, rather than waiting for a shareholders vote, particularly when the proposal had significant support. We believe our work is significant for the following three reasons:

1. our work will show how influential unions are in the market;
2. this work facilitates an understanding of the strategies underlying withdrawn proposals and may help better evaluate the effectiveness of shareholder proposals in reducing agency costs; and
3. this work may help regulators to create more useful and meaningful policies.

In this study, we provide empirical evidence regarding the withdrawal of proposals by the stakeholders of the firms. We begin by examining the proposals withdrawn by all sponsors. The data suggest that unions withdraw more proposals than any other group. Our work focuses on the union strategies for submitting and withdrawing proposals. More specifically, unions often resubmit proposals that have been voted on in the prior year. Many of these resubmitted proposals had received majority or, at a minimum, significant shareholder support when voted on. About 50 per cent of those resubmitted proposals are withdrawn prior to the annual shareholder meetings. Virtually all of these proposals do not reappear in the following years, implying that those proposals have been settled in a manner favorable to the unions. While it is well-recognized that unions submit proposals with the malice of strategic intent, our work sheds light on the strategic impact of proposal withdrawals. This withdrawal phenomenon adds insight into the strategies used by unions and suggests that the withdrawal of proposals is integral to union strategy. Furthermore, it is more likely for unions to adopt this withdrawal strategy when prior voting support is higher, when the insider ownership is lower and when the ownership is less dispersed. The identified strategy used by unions suggests that unions use shareholder proposal withdrawals to further the interests of union workers at the expense of shareholder value. Our finding, that unions use a proposal withdrawal strategy to act in their own self-interest, is not particularly surprising. What is surprising is that this phenomenon has not been well-documented to date.

A review of the literature suggests that there are a myriad of studies on shareholder proposals that have been voted on, but a dearth of work on withdrawn proposals. Examples of typical work include Renneboog and Szilagyi (2011), Guercio *et al.* (2008), Thomas and Cotter (2007), Bizjak and Marquette (1998), Karpoff *et al.* (1996) and Gillan and Starks (2000). These studies focused on voting outcomes on shareholder proposals. These studies have documented that, whereas most shareholder proposals receive less than 50 per cent of the votes (in favor), shareholder support for such proposals has increased over time. Moreover, proposals addressing antitakeover issues as well as those sponsored by pension funds and unions generally receive higher levels of shareholder voting support than other proposal–sponsor combinations, suggesting that shareholders generally consider both the proposal type and the sponsor when deciding how to cast their votes. The evidence to date also suggests that support for shareholder proposals is higher at small and poorly performing companies and in firms with high institutional investor ownership but with low stakes held by insiders. In addition, Ertimur *et al.* (2010) show that management is more likely to adopt shareholder proposals with majority shareholder support, even though shareholder proposals are non-binding in nature. Indeed, proposals with majority shareholder support empower shareholders and therefore help discipline management, thus reducing agency costs. Bebchuk (2005) has called for shareholder proposals to be made legally binding. Harris and Raviv (2010) demonstrate this view theoretically. Overall, this modeling suggests that shareholder proposals are potentially an effective channel for shareholders to voice their disappointment with/disapproval of a firm's governance or performance. Not only does the market react positively to the "correct" proposals, but it also penalizes those firms that overlooked those proposals. An alternative view is that proposal sponsors might use shareholder proposals as a mechanism to bargain with management for *private* benefits. Bainbridge (2006) suggests that the SEC should restrict shareholders from submitting proposals, as shareholders are at an information disadvantage in comparison with management. The study by Matsusaka and Ozbas (2015) demonstrates, in theoretical terms, that managers tend to compromise with activists, resulting in an ineffectiveness of the shareholder proposals in creating shareholder value. Dimson *et al.* (2014) document firms' improvement in profitability, efficiency and governance after successful engagements, where "engagements" address environmental, social or governance concerns.

Studies of shareholder proposals that are withdrawn prior to the annual shareholder meetings are largely neglected in the literature. Parthiban *et al.* (2007) investigate those settled shareholder proposals that are related to social issues rather than corporate governance issues *per se*. McCahery *et al.* (2014) survey behind-the-scenes engagement of shareholder activists with management and find that negotiation with management is the most frequently adopted strategy. However, their extensive survey covers different aspects of corporate governance, not only shareholder proposals in particular. Detailed investigations of withdrawn proposals covering corporate governance matters *per se* are needed because a large percentage of such proposals are withdrawn (Gillan and Starks, 2000; Renneboog and Szilagyi, 2011). Bauer *et al.* (2015) pioneer the study of the determinants of proposal withdrawals, mainly from the perspective of the influence of the activists and institutional ownership. These proposals cover a wide range of issues in corporate governance as well as in the realm of social issues. We follow this line of research but emphasize the role played by union funds. More specifically, following the literature, we separate the corporate-governance-related proposals into five groups according to sponsors and into eight groups according to proposal issues. We find that union funds tend to have a higher incidence of withdrawn proposals. This pattern of withdrawal appears to occur more when management has less ownership of the firm and when firm performance seems to be weaker. The results imply that unions act strategically in terms of withdrawing the proposals they submit.

The structure of this study is follows. In Section 2, we explain the data set and propose the hypotheses. In Section 3, we analyze the withdrawn shareholder proposals from the perspective of proposal sponsors, issues and others. We also identify a strategy used by unions. In Section 4, the conclusions are provided.

2. The hypothesis and data

Despite the increased focus on shareholder voting in recent years, the effectiveness of shareholder proposals remains a contentious issue. On one hand, shareholder proposals are accessible to the public and therefore can be more influential and valuable, when compared with private negotiations between shareholders and the management. On the other hand, unlike costly but obligatory proxy contests, shareholder proposals are much cheaper but potentially ineffective due to their non-binding nature.

What is more complex is that a large percentage of the shareholder proposals have been withdrawn by their sponsors prior to the annual shareholder meetings. While a modest portion of proposals are withdrawn because of mistakes made by their sponsors or because of an obvious lack of support, it is unclear why so many other proposals are withdrawn. The natural question arises: why do shareholders withdraw proposals? More specifically, why do unions withdraw proposals that had garnered significant support in the prior year and would be likely to put significant pressure on management if taken to a vote in the current year? Based on shareholder proposals related to social issues, Parthiban *et al.* (2007) partially analyze this question from the perspective of the power of the activists, the interests of the management and the outcomes of the proposals. We investigate this topic in greater depth, focusing on firm characteristics, ownership structure, corporate governance status, proposal types, proposal sponsors and the factors associated with proposals no longer being submitted. We hypothesize that when a proposal is submitted by a powerful sponsor, such as a union fund, the proposal is likely to be withdrawn rather than voted on. We also hypothesize that when the target firm has performed poorly, or when the management team is relatively weak, the same conclusion can be drawn regardless of the sponsor.

To test the above hypotheses, we gathered information of shareholder proposals from the Investor Responsibility Research Center, which collects the proxy statements of over 1,900 firms, including the S&P 500. In total, there were 2,739 shareholder proposals related to corporate governance issues for the period 2004 through 2007. Furthermore, we focused on firms in The Corporate Library (TCL) and collected information on antitakeover provisions, board composition and ownership by block-holders and insiders for the period 2005-2007. There were a total of 8,257 observations in the sample period. After merging with the shareholder proposals data set, we had a total of 1,806 shareholder proposals related to corporate governance issues.

In this study, firm performance is measured by stock returns on a fiscal year basis from the Center for Research in Security Prices (CRSP). Firm's growth potential is measured by market-to-book ratio as obtained from COMPUSTAT. The variable board independence level is calculated as the ratio of number of outside directors relative to board size.

The following anti-takeover provisions were collected from TCL: the presence of a classified board, poison pill, the percentage of outstanding shares required to amend by-laws, the percentage of outstanding shares required to amend a company's charter and the percentage of outstanding shares required to approve a merger or sale from TCL. Furthermore, if any of the percentages is greater than 66.66 per cent, the threshold for a supermajority, it was recorded as a 1; otherwise, it was recorded as a 0. E-index is the sum of the above anti-takeover provisions, ranging from 0 to 5 (Bebchuk *et al.*, 2009).

The role of institutional investors in shareholder activism cannot be overlooked. In general, institutional investors avoid active involvement in managerial decision-making due to the liquidity-control tradeoff (Coffee, 2010). We collected institutional investors' ownership from Thompson CDA/Spectrum 13F and calculated the Herfindahl index, which measures the dispersion of institutions' ownership as follows:

$$H = \sum_{i=1}^{N} S_i^2$$

where S_i is defined as the market share of fund i in the market, and N is the number of funds.

We control for firm size and leverage. Additionally, to control for the industry effect, we adjusted all of the above accounting variables by industry means, based on the classification of the 49 industries studied in Fama and French (1997).

3. Withdrawn shareholder proposals

In this section, we document the general factors associated with the withdrawn proposals. Second, we report the proposal topics as well as the sponsors, with a special focus on unions. Finally, we identify a strategy that unions have used when submitting and resubmitting shareholder proposals and investigate the factors associated with the utilization of this strategy.

3.1 The general factors associated with the likelihood that a proposal is withdrawn

To investigate the factors associated with the occurrence of the withdrawn shareholder proposals, we use a logistic regression cluster – robust variance model by treating the appearance of a withdrawn proposal as an event and the occurrence of a voted proposal as the base (Cameron and Trivedi, 2005). Other explaining variables reflect firm characteristics in corporate governance, ownership structures and firm performance.

The model adopted is expressed, as follows:

$$\begin{aligned}\text{Logit}(\pi_{\text{withdrawn\_proposal}}) = {} & \beta_0 + \beta_1\text{Sponsor\_indicator} + \beta_2\text{Proposal\_topic\_indicator} \\ & + \beta_3\text{Institutional\_ownership} + \beta_4\text{No\_funds} \\ & + \beta_5\text{Insider\_ownership} + \beta_6\text{Blockholder\_ownership} \\ & + \beta_7\text{Board\_size} + \beta_8\text{Board\_independence} \\ & + \beta_9\text{E-Index} + \beta_{10}\text{Stock\_return} + \beta_{11}\text{Market\_to\_book} \\ & + \beta_{12}\text{Leverage} + \beta_{13}\text{Size} + \beta_{14}\text{Year\_06} + \beta_{15}\text{Year\_07}\end{aligned} \tag{1}$$

The sample under study contained 1,363 observations with 427 clusters, from which 360 proposals were withdrawn and 1,003 proposals were voted on, from 2005 to 2007. When a withdrawn proposal occurred, it was recorded as a 1; otherwise, it was voted upon and thus recorded as a 0. The regression results of the marginal effects are reported in Table I.

Table I Logistic regression models explaining the withdrawn proposals

	Model 1		*Model 2*		*Model 3*		*Model 4*		*Model 5*	
Variables	*ME*	*z value*	*ME*	*z value*	*ME*	*z value*	*ME*	*z value*	*ME*	*z value*
Proposal-antitakeover	−0.079	−1.23	−0.076	−1.17	−0.101	−1.56	−0.077	−1.2	−0.096	−1.49
Proposal-board	−0.156**	−3.29	−0.162**	−3.53	−0.173**	−3.90	−0.162**	−3.59	−0.171**	−3.85
Proposal-exec compensation	−0.110†	−1.70	−0.113†	−1.76	−0.135*	−2.07	−0.112†	−1.77	−0.130*	−2.00
Proposal-voting	−0.058	−0.86	−0.061	−0.9	−0.084	−1.24	−0.059	−0.89	−0.078	−1.15
Sponsor-union funds	0.319***	11.61	0.333***	11.80	0.331***	11.73	0.334***	11.93	0.334***	11.83
Sponsor-pension funds	0.418**	6.27	0.435**	6.48	0.444**	6.65	0.431**	6.36	0.449**	6.70
Sponsor-investment firms	0.128	1.09	0.159	1.28	0.185	1.41	0.172	1.38	0.189	1.43
Sponsor-religious/social	0.169†	1.82	0.171†	1.79	0.177†	1.82	0.173†	1.80	0.183†	1.89
Year-06	−0.044	−1.52	−0.046	−1.59	−0.046	−1.61	−0.049†	−1.71	−0.049†	−1.71
Year-07	0.091**	3.00	0.088**	2.96	0.090**	2.98	0.085**	2.85	0.087**	2.89
Assets	–	–	0.012	1.61	0.016	1.39	0.005	0.49	0.009	0.72
Market-to-book ratio	–	–	−0.065*	−1.97	−0.054	−1.59	−0.068*	−2.02	−0.058†	−1.68
Leverage	–	–	0.048	0.66	0.048	0.65	0.053	0.73	0.054	0.73
Stock returns	–	–	−0.016	−0.31	−0.043	−0.78	−0.020	−0.36	−0.044	−0.77
Institutional shareholders' (%)	–	–	–	–	−0.053	−0.55	–	–	−0.051	−0.53
Insiders' stakes	–	–	–	–	−0.559**	−3.09	–	–	−0.539**	−2.89
Block-holders' stakes	–	–	–	–	−0.052	−0.46	–	–	−0.055	−0.49
No. of funds	–	–	–	–	0.000	−1.28	–	–	0.000	−1.37
Board size	–	–	–	–	–	–	0.005	0.74	0.007	0.96
Board independence	–	–	–	–	–	–	0.281†	1.68	0.128	0.74
E-Index	–	–	–	–	–	–	−0.001	−0.04	−0.009	−0.66

Notes: Table I explains the occurrence of withdrawn proposals, using logistic regression with adjusted variance due to clustering across firms. The occurrence of proposals that are withdrawn is treated as the event. Among TCL firms, there are 360 shareholder proposals that are withdrawn and 1,003 proposals that are voted on from 2004 through 2007. There are 427 clusters. Marginal effects (ME) are defined as the instantaneous rates of change that depend on the values of the independent variables, measured at the means; ***, **, * and † represent probabilities less than 0.1%, between 0.1% and 1%, between 1% and 5% and between 5 and 10%, respectively

The regressions show that withdrawn proposals are strongly associated with the proposal sponsor. In Model 5, the coefficients for union funds, pension funds, investment firms and religious/socially responsible group are significant and positive, suggesting that the likelihood of occurrence of a withdrawn proposal is higher for proposals sponsored by these four groups than by individual investors. This set of findings confirms the key role of the identity of sponsors in determining a withdrawn proposal.

The results also provide evidence that the occurrence of a withdrawn proposal is strongly related to proposal topics. To be specific, when a proposal is related to board or executive compensation issues, the likelihood of its being withdrawn, rather than voted, decreases. The signs for antitakeover and voting issues are negative but insignificant.

Further investigation of the roles of financial and stock performance variables suggests that they add significant explanatory power to the models. The evidence suggests that a withdrawn proposal occurs more frequently in firms with poor performance (or lack of growth potential) as measured by the market-to-book ratio. Stock return, another measure of firm performance, is negative but statistically insignificant in all of the models and thus apparently has little impact on proposals being withdrawn. In addition, the coefficient of leverage is positive but insignificant. Thus, we do not find strong evidence showing that proposal sponsors target firms with high agency costs. Surprisingly, the coefficient of firm size is positive and insignificant, an outcome that is contrary to our expectations.

The results also imply that the likelihood of proposals being withdrawn is associated strongly with the ownership structure of the target firms. Specifically, when insiders have more voting rights, the proposal is less likely to be withdrawn. However, neither institutional investors nor block-holders have a statistical effect on proposals being withdrawn. Their coefficients are negative but insignificant in all of the models. Furthermore, we expect the coefficient of the E-index level to be negative, implying that when the antitakeover measure in the target firm is high, shareholder sponsors are less likely to withdraw the proposal. As expected, the coefficient of the E-index level is negative but insignificant. Of note, we replace institutional ownership by Herfindahl index as a robustness check. The empirical results are similar.

In summation, the evidence suggests that the extent of control by management, and the firm's prior performance seem to influence whether a proposal will be withdrawn. More specifically, the submitted proposal is more likely to be withdrawn, when the target firm has a low percentage of insider ownership, has performed poorly in the past or has proposals sponsored by powerful parties.

3.2 The issues around which proposals were withdrawn

The 2004 to 2007 proxy seasons witnessed high levels of concern over issues such as tying executive compensation to performance, repealing poison pills, declassifying boards, adopting majority vote to elect directors and separating the roles of CEO and chairman. In this period, we also witnessed declining shareholder attention to audit-related issues, presumably largely attributable to the effects of the Sarbanes–Oxley Act. Table II reports the comprehensive breakdown of shareholder proposals by proposal issues.

From 2004 to 2007, out of a total of 2,739 proposals, 588 proposals were withdrawn, 32 per cent of which relate to executive compensation issues. More specifically for 2004, 2005, 2006 and 2007, there are 50, 59, 32 and 46 such withdrawn proposals, respectively. Proposals related to voting issues were withdrawn 106 times in 2007, a significant escalation from 40 times in 2006, 24 times in 2005 and 7 times in 2004. Furthermore, board-related proposals were withdrawn only 57 times in the four-year period, much less than proposals related to voting issues and executive compensation. Moreover, proposals related to antitakeover issues were withdrawn 15, 8, 18 and 25 times during 2004, 2005, 2006 and 2007, respectively.

Table II Summary of shareholder proposal issues and proposal resolutions

Year			*2004*				*2005*					*2006*					*2007*			
Issues	*Sub-total*	*Vote*	*With-draw*	*Omit*	*Other*	*Sub-total*	*V*	*W*	*O*	*Ot*	*Sub-total*	*V*	*W*	*O*	*Ot*	*Sub-total*	*V*	*W*	*O*	*Ot*
Antitakeover	177	109	15	41	12	152	97	8	30	17	174	106	18	33	17	153	102	25	18	8
Voting issues	47	33	7	6	1	119	78	24	13	4	176	116	40	1	19	182	67	106	0	9
Board issues	114	69	11	17	17	153	86	20	28	19	135	103	12	12	8	180	137	14	18	11
Executive compensation	239	138	50	18	33	184	81	59	33	11	105	53	32	18	2	172	90	46	29	7
Study sale of company	7	3	1	1	2	13	7	0	2	4	9	5	0	3	1	8	5	0	0	3
Audit-related	85	7	68	9	1	25	1	17	4	3	1	0	0	1	0	0	0	0	0	0
Annual/special meeting	3	2	0	1	0	0	0	0	0	0	1	0	0	0	1	4	0	2	2	0
Others	17	11	4	1	1	34	20	1	4	9	24	14	0	2	8	46	19	8	11	8
Total	689	372	156	94	67	680	370	129	114	67	625	397	102	70	56	745	420	201	78	46

Notes: Table II reports the yearly volume of shareholder proposals in accordance with the proposal issues and the final proposal solutions from 2004 through 2007. From 2004 through 2007, shareholders submitted 2,739 corporate governance-related proposals, classified into eight subject groups. Within each group, they are classified into five final solution groups

Table III Normalized withdrawn rates by major proposal issues

Withdrawn rate/year	*2004 (%)*	*2005 (%)*	*2006 (%)*	*2007 (%)*
Antitakeover	8.47	5.26	10.34	16.34
Voting issues	14.89	20.17	22.73	58.24
Board issues	9.65	13.07	8.89	7.78
Executive compensation	20.92	32.07	30.48	26.74

Notes: Table III reports the normalized withdrawn rate by four major issues from 2004 to 2007. For instance, the normalized withdrawal rate of antitakeover issue is calculated by dividing the total number of proposals of antitakeover issues by those that were withdrawn

In Table III, below, we report the normalized withdrawal rate by proposal issues from 2004 through 2007. The "normalized" withdrawal rate equals the number of withdrawn proposals out of the total submitted in each proposal issue every year.

Figure 1 provides the comparison among variant topics for all proposals that are withdrawn from 2004 through 2007.

3.3 Withdrawn proposal's sponsors

Following Gillan and Starks (2000) and Renneboog and Szilagyi (2011), we divided the sample of shareholder proposals into five groups based on proposal sponsors. The five major groups of sponsors are unions, pension funds, individuals, investment firms and religious entities/firms. Next, within each group, we count the occurrence of proposals that are voted upon, withdrawn and omitted, respectively. Tables IV and V report the percentage of the occurrence among all proposals, and the normalized withdrawal rates,

Figure 1 Normalized withdrawal rate among variant proposal topics

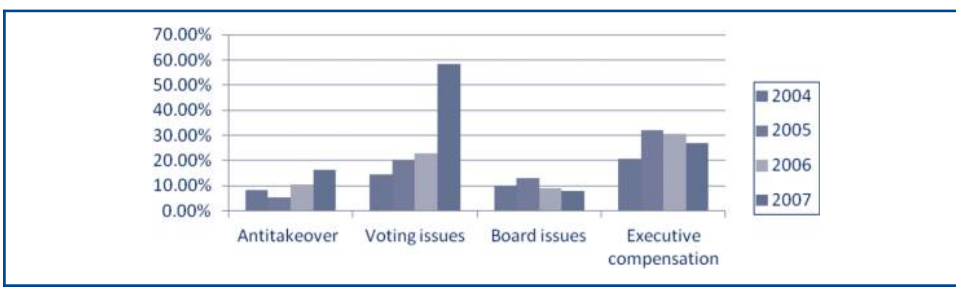


Table IV Summary of shareholder proposal sponsors and proposal resolutions

Sponsor (%)	2004 Vote	2004 With-draw	2004 Omit	2005 Vote	2005 With-draw	2005 Omit	2006 Vote	2006 With-draw	2006 Omit	2007 Vote	2007 With-draw	2007 Omit
Individual investors	29.20	0.97	11.29	25.61	1.30	11.91	31.81	1.41	9.84	27.90	4.00	8.73
Religious/social investor	2.90	0.81	0.16	5.54	0.81	0.49	3.69	1.06	0.52	2.71	0.71	0.00
Union funds	24.04	16.45	2.74	25.29	12.89	3.42	29.35	11.25	0.88	23.32	19.17	0.29
Public pension funds	1.61	4.19	0.64	2.12	3.42	2.12	1.93	1.76	0.35	3.72	2.00	1.15
Other institutions	1.93	2.59	0.48	1.80	2.61	0.66	2.99	2.46	0.70	2.43	2.86	1.00
Total (100%)	59.68	25.01	15.31	60.37	21.03	18.60	69.77	17.93	12.30	60.09	28.76	11.15

Note: Table III reports the withdrawn rate by sponsors from 2004 to 2007

Table V Normalized withdrawal rate among variant sponsors

Sponsors/Year	*2004 (%)*	*2005 (%)*	*2006 (%)*	*2007 (%)*
Individual investors	2.05	2.14	2.94	9.21
Religious/Socially responsible investor	20.83	12.77	17.65	20.00
Union funds	35.38	32.73	28.14	44.18
Public pension funds	33.33	27.50	25.93	29.55
Other institutional investors	30.77	32.26	29.63	22.22

Notes: Table V reports the normalized withdrawn rate by sponsors from 2004 to 2007. For instance, the normalized withdrawal rate of union funds is calculated by dividing the total number of proposals of unions by those that were withdrawn

respectively. Of note, the normalized withdrawal rate equals the number of withdrawn proposals out of the total submitted by each sponsor group each year.

A clear pattern appears. Although majority of proposals are voted, quite a few are withdrawn, among which, unions stand out. More specifically, on average, 4 per cent of all withdrawn proposals are submitted by religious or "socially responsible" investors, the lowest among all groups. This is followed by individual investors, at approximately 9 per cent of the withdrawals. The percentages of proposals that have been withdrawn are similar for both other institutional shareholders and public pension funds, at around 12 per cent. In this sample, 65 per cent of withdrawn proposals are sponsored by unions. Furthermore, in contrast to pension funds and other institutional investors, whose withdrawn rates peaked in 2005 and have been decreasing every year, union funds withdrew more proposals in 2007 than in the prior years.

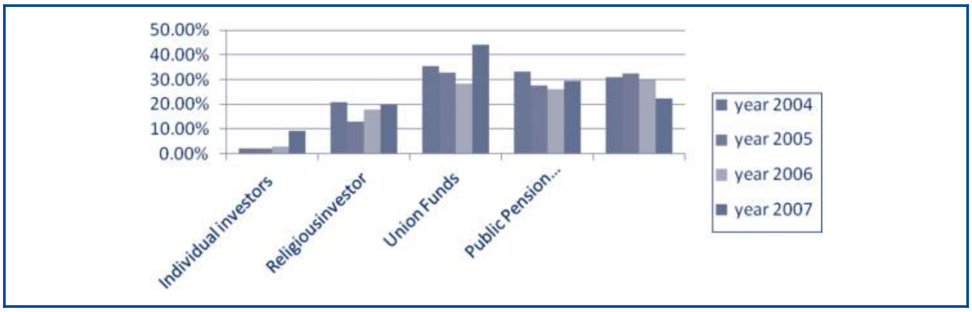
Clearly, the withdrawal rates of both the individual investors and the religious groups are considerably lower than the case with other groups. This is consistent with our contention that large and influential investors, such as unions, are more likely to reach agreement with management, leading in turn to proposals being subsequently withdrawn (Goodman *et al.*, 2001). Further, the sample suggests that unions are more likely to withdraw proposals than any other group, followed by public pension funds. The comparison based on normalized withdrawal rates shows that there is not much difference among unions, pension funds and other institutional investors, except in year 2007. Figure 2 further demonstrates the above findings.

3.4 Proposal sponsorship and proposal issues combined

In this section, we break down each sponsor group according to proposal issues. The results are reported in Table VI.

The majority of union-sponsored proposals involves issues of executive compensation and voting. In particular, about 24 and 22 per cent of withdrawn proposals are submitted by unions regarding voting and executive compensation issues, respectively, much greater than that for other issues. In comparison, the remaining groups of activists withdrew fewer

Figure 2 Normalized withdrawal rate among variant proposal sponsors



proposals involving these two issues. These findings suggest that unions use shareholder proposal withdrawals strategically.

Focusing on union funds alone yields a number of observations. For instance, the withdrawn rates of the United Brotherhood of Carpenters and Joiners of America (UBCJA) are 38, 35, 31 and 58 per cent respectively, for 2004, 2005, 2006 and 2007, with an average of 40 per cent. The International Brotherhood of Electrical Workers, International Brotherhood of Teamsters, Sheet Metal Workers and Laborers' International Union Funds of NA also have high withdrawal rates. By contrast, the withdrawn rates of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) are lower, with an average of 22 per cent. Of note, a greater withdrawal rate could reflect either the higher collective bargaining power of union funds or uncompromising management.

3.5 Proposals withdrawn by unions

The evidence presented so far supports the conventional view that unions are a special group of investors. Marens (2008) documents that unions not only bargain for the benefits of their members, but also direct efforts toward their self-serving agenda and political interests. Our findings corroborate the conclusions of Marens (2008) by documenting how proposal withdrawals also suggest this self-serving strategy.

Table VI Summary of withdrawn shareholder proposal and proposal resolutions

Proposal status	*Sponsor/issues (%)*	*Antitakeover*	*Audit*	*Board*	*Executive compensation*	*Sale of company*	*Voting*	*Special meeting*	*Others*	*Subtotal*
Withdrawn	Individual	3.07	0.17	0.68	1.37	0.17	2.56	0.17	0.17	8.36
	Union	4.44	11.60	1.19	22.35	0	23.55	0.17	1.19	64.49
	Public pension funds	0.85	2.73	1.37	3.75	0	3.24	0	0.34	12.28
	Other institutions	2.56	0	4.78	3.24	0	0.51	0	0.17	11.26
	Religious	0.34	0	1.71	1.19	0	0.34	0	0	3.58
	Subtotal	11.26	14.51	9.73	31.91	0.17	30.20	0.34	1.88	100
Omitted	Individual	32.49	0.84	13.73	19.05	1.68	2.52	0.56	1.96	72.83
	Union	0.84	2.80	4.48	4.20	0	1.12	0	0.84	14.28
	Public pension funds	0.56	0.28	1.12	1.68	0	1.68	0.28	0.28	5.88
	Other institutions	0.28	0	1.40	1.12	0	0	0	2.24	5.04
	Religious	0	0	0.28.	1.40	0	0.28	0	0	1.68
	Subtotal	34.17	3.92	21.01	27.45	1.68	5.60	0.84	5.32	100
Voted	Individual	16.65	0	9.17	10.97	0.70	6.68	–	0.80	44.97
	Union	6.08	0.10	2.99	16.15	0	17.35	–	0.40	43.07
	Public pension funds	2.49	0.30	0.60	0.70	0	0.3	–	0	4.39
	Other institutions	0.60	0	0.50	0.70	0.60	0.1	–	0.20	2.69
	Religious	0.30	0	2.59	1.89	0	0.1	–	0	4.89
	Subtotal	26.12	0.40	15.85	30.41	1.30	24.53	–	1.40	100

Notes: Table VI reports the percentages of shareholder proposals that are withdrawn, omitted and voted on from 2004 to 2007. The classification is based on proposal sponsor types

3.5.1 A strategy applied by unions. Marens (2008) states that unions' influence is more distinct in financially distressed small companies. Unions tend to exercise their collective bargaining powers to pursue self-serving agendas and political interests at the expense of shareholder stock value. Accordingly, we hypothesize that unions withdraw proposals to benefit union workers at the expense of shareholder value.

We assume first that unions are indeed pursuing a self-serving agenda. All else equal, proposals that are expected to receive high shareholder support would help unions gain more power, as it is well-known that management could be punished for not implementing those popular shareholder proposals, such as the majority vote proposals (Ertimur *et al.*, 2010).

The above arguments lead to one potential strategy that unions can apply, namely, to resubmit a proposal that has received high shareholder support in the prior year. The shareholder acceptance of this popular proposal pressures management to reach an agreement with the sponsors. In other words, unions can amplify their bargaining power with this strategy.

We thereby look for repetitive shareholder proposals in consecutive years. If a withdrawn proposal never reappears, particularly if the proposal garnered significant support, it may have been settled. Otherwise, we expect it to be resubmitted. Of note, another possible explanation for this phenomenon is that unions do not expect the management to accept those proposals; hence, unions withdraw the proposals before the annual shareholder meetings. However, this explanation is relatively weak, in that those proposals are recurring.

Therefore, among the withdrawn proposals submitted by unions, we separate the entire sample into two groups based on whether or not they have been voted on in the prior year. Out of a total of 279 shareholder proposals withdrawn by unions, we identified a total of 70 cases that had been voted upon in the prior year. In other words, roughly 25 per cent of the withdrawn proposals are potential examples of the strategy mentioned above.

For example, a proposal regarding a golden parachutes issue was submitted by AFL-CIO against Sara Lee Corporation and had received a 61 per cent of shareholder support level in 2005. In the following year, AFL-CIO resubmitted the proposal, but it was withdrawn eventually. We summarize the 70 cases in question in Table VII.

UBCJA appears to have adopted this strategy the most. On average, these proposals received about 52 per cent of shareholder support in the year before they are resubmitted but are withdrawn; this withdrawal rate clearly exceeds the average rate, 40 per cent, among all voted shareholder proposals from 2005 through 2007. These proposals covered a limited number of topics, with many of them devoted to the required majority vote needed to elect directors, followed by linking pay to performance, and third, golden parachutes. We do not have data to investigate whether the 70 proposals were settled after they were withdrawn; however, we expect that most of them were settled for a number of reasons. First, the high shareholder support in the prior year suggests that major institutional investors support the proposals submitted by the union. Second, the same proposal resubmitted by the same sponsor reveals that it was not settled by the management, despite a high shareholder support. Third, with the prior voting results known to the public, unions resubmit the proposals, reinforcing the importance of those proposals as well as exerting more pressure on management. We contend it is likely that the unions were able to negotiate a settlement with management, leading to the withdrawal of those proposals. To further demonstrate this proposition, we check whether another proposal covering the same topic within the company is submitted in the following year. The appearance of any such proposal would presumably indicate that the prior withdrawn proposal was not settled. We find that, in our sample, there are no repetitively withdrawal proposals occurring in the same company with respect to the same proposal topic, regardless of the proposal sponsors. Indeed, only one proposal was resubmitted and voted on in the third year, after it was withdrawn in the second year. Although this one example seems to contradict our arguments, the fact that the proposal was sponsored by numerous groups, including the union, reduced the union's ability to negotiate with management for its own self-interest. Thus,

Table VII Withdrawn shareholder proposals after voted on in the prior year

Union sponsors	*>60%*	*Count of voting in prior year* [50%, 60%]	*[40%, 50%]*	*<40%*	*Proposal issues*
AFL-CIO	1	–	–	–	Golden parachutes
–	1	–	–	–	Majority vote to elect director
AFSCME	–	1	–	1	Majority vote to elect director
–	1	–	–	–	Redeem or vote on poison pill
–	–	1	–	–	Repeal classified board
BellTel retirees	–	–	–	1	Approve/disclose/limit SERPs
Bricklayers	–	1	–	–	Golden parachutes
–	1	–	–	–	Repeal classified board
IBEW	–	–	1	1	Majority vote to elect director
–	1	–	–	–	Repeal classified board
Inter. Brotherhood Teamsters	–	–	1	–	Golden parachutes
–	–	–	–	1	Majority vote to elect directors
Laborers' Inter Union of NA	–	1	–	–	Approve/disclose/limit SERPs
–	–	1	–	–	Expense stock options
–	–	1	–	–	Majority vote to elect directors
Service employee inter. Union	1	–	–	–	Golden parachutes
–	–	–	–	1	Majority vote shareholder committee
Sheet Metal Workers	–	3	3	2	Link pay to performance
–	–	–	–	1	Majority vote to elect directors
–	–	–	–	1	Performance/time-based restricted shares
UBCJA	–	–	–	2	Link pay to performance
–	8	9	19	3	Majority vote to elect directors

Notes: Table VII summarizes the withdrawn shareholder proposals from 2004 to 2007 that are resubmitted by unions after the same proposal was voted on in the prior year. We report the numbers of the withdrawn proposals whose voting percentages fall into one of the four ranges: < 40%, from 40 to 50%, from 50 to 60%, and > 60%

we argue that this single circumstance lends little evidence to contradict our proposition that management tends to settle the withdrawn proposals resubmitted by unions.

We realize that we are using indirect and anecdotal evidence to support our findings. We also recognize that the 70 firms in the 2004-2007 data set is a relatively small sample from which to draw our conclusions. We do however submit that the logic behind our arguments is reasonable and compelling, and warrants further interest and research into these union withdrawal strategies.

To corroborate the results of our study, we repeated the investigation for the 2007 through 2009 period. The results support the findings from the 2004-2007 period. These results are not reported but are available upon request.

There were a total of 29 such cases from 2007 through 2009, with a mean voting approval rate of 53 per cent. The most active union adopting this strategy, once again, is UBCJA, with 14 cases in total. Requiring a majority vote to elect directors is the most frequently occurring issue, happening 12 times, from among which UBCJA was responsible for nine cases. Most importantly, we do not identify any proposal sponsors resubmitting a proposal for the same issue after such proposal has been voted on and withdrawn from 2004 through 2009, suggesting that the substance of those withdrawn proposals was settled by management.

Unions may withdraw proposals co-sponsored by other groups in the prior year as well, if such proposals were voted upon and received a high percentage of shareholder support. However, the bargaining power of a union tends to be lower in the co-sponsor situation than is the case when the union is the sole sponsor for the same proposal in two consecutive years. We believe the reason that unions gain more influence when they are the sole sponsor is that the union becomes more experienced and more knowledgeable while bargaining with the management. There are a total of 47 such cases from 2004 to 2009, with an average shareholder support level of 52 per cent. UBCJA sponsors 11 such proposals. Among these 11, four proposals involved executive compensation issues.

Another four proposals were devoted to the issue of requiring a majority vote in order to elect directors. Of note, we identify only three proposals that were submitted in three consecutive years by different sponsors. More specifically, one such proposal was voted on after it was previously voted upon and then withdrawn, and two other cases were voted upon, withdrawn and then voted upon again, in three consecutive years. The results are not reported here but are available to interested readers.

In summary, we argue that the resubmittal strategy is integral to the unions' overall strategy. Unions resubmit those proposals that have been well-supported and voted on in the prior year, and then withdraw them prior to the annual shareholder meetings. Those proposals are likely to be "settled" after being withdrawn by unions, because those proposals do not reappear in the following years. In the next section, we examine the factors that are associated with those resubmitted withdrawn proposals sponsored by unions.

3.5.2 Factors associated with the resubmitted withdrawn proposals. We explore the factors that are associated with the resubmitted withdrawn shareholder proposals sponsored by unions. We believe they are likely to be settled, as they had significant support in the year of the vote, were resubmitted and withdrawn in Year 2 and were not resubmitted within a couple of years after being withdrawn.

First, we did a two-sample Wilcoxon rank-sum test to compare the differences between the 70 previously voted on withdrawn proposals and the rest of the 279 withdrawn proposals from unions. The results are reported in Table VIII.

Among all the variables of interest, executive compensation topic, staggered board status, insider ownership, block-holder ownership, Herfindahl index and firm size are significantly different between the two groups.

A logistic regression cluster–robust variance model analysis supports the above conclusions. In this investigation, the previously voted on, then withdrawn shareholder proposal from unions is treated as the event. The variables included involve the ownership and antitakeover status, as well as firm performance. The model is provided below, with the results reported in Table IX.

$$\begin{aligned}\text{logit}(\pi_{\text{settled\_withdrawn\_proposal}}) = {} & \beta_1\text{Executive\_Compensation} + \beta_2\text{Insider\%} \\ & + \beta_3\text{Blockholder\%} + \beta_4\text{Herfindahl\_Index} \\ & + \beta_5\text{Staggered\_Board} + \beta_6\text{Poison\_Pill} \\ & + \beta_7\text{Board\_Independence} + \beta_8\text{Market\_Book} \\ & + \beta_9\text{Leverage} + \beta_{10}\text{Stock\_Return} + \beta_{11}\text{Size} + u\end{aligned} \tag{2}$$

The results in Table IX suggest that for the group of 70 previously voted on then withdrawn proposals, is strongly and negatively a function of whether they involve executive

Table VIII Two-sample Wilcoxon rank-sum test for union-sponsored withdrawn proposals with prior voting record versus others

Variables	*p value*	*z value*
Executive compensation	***0.00***	4.981
Staggered board	***0.02***	2.276
Poison pill	0.34	0.957
Board independence	0.14	−1.483
Insider ownership	***0.00***	3.461
Block-holder ownership	***0.04***	2.066
Herfindahl index	***0.00***	3.413
Firm size	***0.09***	−1.703
Market to book	0.93	−0.085
Stock return	0.36	0.914

Notes: Table VIII reports the Wilcoxon rank sum test results for withdrawn proposals sponsored by unions between those with the prior voting record and the rest. In our sample, we have a total of 279 withdrawn proposals sponsored by unions, among which 70 are with prior voting record

Table IX Logistic regression studying withdrawn proposals sponsored by unions

Variables	Model 1 Marginal effect	Model 1 z value	Model 2 Marginal effect	Model 2 z value	Model 3 Marginal effect	Model 3 z value	Model 4 Marginal effect	Model 4 z value
Exec. comp	−0.2786***	−6.28	−0.2687***	−6.02	−0.2567***	−5.98	−0.2541***	−5.90
Market to book	0.0315	0.43	0.0071	0.09	−0.0609	−0.79	−0.0630	−0.82
Leverage	0.0147	0.10	0.0015	0.01	0.0796	0.55	0.0716	0.50
Firm size	0.0363***	2.62	0.0289**	2.03	−0.0107	−0.56	−0.0091	−0.48
Stock return	−0.0959	−0.84	−0.1146	−0.97	−0.1324	−1.10	−0.1568	−1.34
Staggered board			−0.0878*	−1.71			−0.0812*	−1.68
Poison pill			−0.0038	−0.07			0.0245	0.45
Board independence			0.8177**	1.98			0.4294	1.08
Insider (%)					−1.1319**	−2.26	−1.0894**	−2.49
Block-holder (%)					−0.3908*	−1.70	−0.3900*	−1.65
Herfindahl index					−0.0550*	−1.88	−0.0425	−1.47
Sample size	279		279		279		279	
Wald chi square	26.36		35.32		24.67		31.28	

Notes: Table IX reports the logistic regression results for withdrawn proposals sponsored by unions between those with the prior voting record and the rest. In our sample, we have a total of 279 withdrawn proposals sponsored by unions, among which 70 are with prior voting record; ***, ** and * represent probabilities less than 1%, between 1 and 5% and between 5 and 10%, respectively

compensation issues, greater insider ownership, the Herfindahl index and greater block-holder ownership, while arguably an increasing function of board independence.

3.5.3 A comparison between withdrawn and voted proposals with prior voting record. We also looked at those proposals that had been previously been voted on. There were 148 instances from 2004 to 2007 where union and non-union proposals had been voted on in the previous year. Of the 148, 70 of the proposals were sponsored by unions but withdrawn in the subsequent year. Thus, we compare the withdrawn proposals with the voted proposals, both with prior voting records.

The logistic regression model is as follows:

$$\begin{aligned}\text{logit}(\pi_{\text{withdrawn\_proposal}}) = {} & \beta_1\text{Prior\_vote\_rate} + \beta_2\text{Staggered\_Board} \\ & + \beta_3\text{Board\_Independence} + \beta_4\text{Insider\%} + \beta_5\text{ROA} \\ & + \beta_6\text{Stock\_return} + \beta_7\text{Herfindahl\_Index} + \beta_8\text{Size} \\ & + \beta_9\text{Voting\_issue} + \beta_{10}\text{Antitakeover\_issue} + \\ & \beta_{11}\text{Executive\_compensation\_issue} + u\end{aligned} \tag{3}$$

The occurrence of the withdrawn shareholder proposals is given a value of 1. Thus, 0 is for the voted shareholder proposals. Of note, the prior voting rate is the actual percentage rate of support among shareholders. Ertimur *et al.* (2010) find that management tends to be punished if they were caught not executing shareholder proposals with majority shareholder support. Thereby, we repeat the above test but replace the prior voting rate by a dummy variable for majority vote in prior year. When the prior voting support is greater than 50 per cent, this dummy variable equals to 1.

The results are reported in Table X.

The results in Model 1 and 2 suggest that when the prior voting rate in support of a proposal is higher, it is more likely for unions to withdraw a proposal than keeping it in the proxy list for voting in the annual shareholder meetings. Furthermore, when the ownership is less dispersed as measured by the Herfindahl index, the repetitive proposals are more likely to be withdrawn. The above results are robust when replacing prior voting rate by a dummy variable for prior majority vote as shown in Model 3 and 4.

In summation, the evidence demonstrates that unions, as an organization with strong bargaining power, submit shareholder proposals and withdraw proposals strategically. Unions are found to resubmit shareholder proposals with a more favorable support but withdraw them prior to the annual shareholder meetings. This strategy is more like to occur when the prior voting support is higher, when the insider ownership is lower and when the

Table X Logistic regression studying settled withdrawn proposals by unions

Variables	*Model 1* *Marginal effect*	*z value*	*Model 2* *Marginal effect*	*z value*	*Model 3* *Marginal effect*	*z value*	*Model 4* *Marginal effect*	*z value*
Prior vote rate	1.4593***	3.56	1.4126***	3.47				
Prior majority vote dummy					0.3689***	3.83	0.3524***	3.69
Stagger board	−0.1834*	−1.72	−0.1523	−1.49	−0.2195**	−2.07	−0.1845*	−1.82
Board independence	0.3049	0.36	0.4333	0.52	0.2883	0.35	0.4052	0.5
Insider ownership	−0.2733	−0.53	0.0231	0.06	−0.2332	−0.46	0.0748	0.18
Stock return	−0.2508	−1.32	−0.2577	−1.38	−0.1647	−0.86	−0.1753	−0.94
ROA	−0.2353	−0.31	−0.3453	−0.48	−0.7552	−0.99	−0.8167	−1.12
Herfindahl index (log)	0.1052**	1.97	0.0996*	1.94	0.0899*	1.72	0.0874*	1.71
Total Asset	0.0000	0.97	0.0000	0.74	0.0000	0.64	0.0000	0.42
Proposal_vote	−0.2580	−1.25			−0.2721	−1.38		
Proposal_antitakeover	−0.0502	−0.21			−0.0699	−0.3		
Proposal_exec_compensation	−0.1742	−0.82			−0.1867	−0.92		
Number of obs	123		123		123		123	
LR chi^2	27.42		24.41		24.79		21.71	
Prob > chi^2	0.004		0.002		0.0098		0.0055	
Log likelihood	−71.2165		−72.7212		−72.5308		−74.0742	
Pseudo R^2	0.1614		0.1437		0.146		0.1278	

Notes: Table X reports the logistic regression results for union-sponsored proposals with prior voting record between those that are withdrawn versus voted. In our sample, we have a total of 148 such proposals, among which 70 are withdrawn; ***, ** and * represent probabilities less than 1%, between 1 and 5% and between 5 and 10%, respectively

ownership is less dispersed. The identified strategy deployed by unions suggests that unions use shareholder proposals for the benefit of union workers at the expense of shareholder value.

Of note, as a robustness check, among the withdrawn proposals with a prior voting record, we compare those receiving high approval rates with those with low approval rates, using a two-sample Wilcoxon rank-sum test. The results support our findings and are reported in the table in Appendix 1.

4. Conclusion

In this study, we attempt to extend the research on the role of shareholder proposals in corporate governance. Prior studies have concentrated on voted proposals. The primary finding of these studies has been: management teams who ignored shareholder proposals with majority shareholder support tend to be penalized. This suggests the effectiveness of using shareholder proposals as a means to discipline management. However, some proposals with significant support did not get voted on. These proposals were withdrawn by shareholders prior to the annual shareholder meetings. Studies focusing on the withdrawn shareholder proposals are limited. We have endeavored to contribute to this literature by proceeding with a detailed study of shareholder proposals that are withdrawn. In particular, we focus on shareholder proposals that have been voted on in the previous year, had significant support in the first year and were withdrawn in the second year. We also explore the determinants of a withdrawn shareholder resolution, within the context of firm performance, firm ownership structure and corporate governance considerations. Specifically, we analyze the behavior of unions, as unions are not only often powerful but also are very active in shareholder activism.

Focusing on shareholder proposals related to corporate governance from 2004 through 2007, we find that proposals covering issues regarding executive compensation and voting are more likely to be withdrawn. Unions are the most active group of stockholders in terms of crafting deals with the management by withdrawing their proposals, especially when the company is small, has performed poorly or has low insider ownership.

Additionally, unions submit shareholder proposals and withdraw proposals with strategic intent. Our contribution to the literature is the significance of proposal withdrawal. Unions tend to repetitively submit the same proposal over the years. For those proposals that have received high shareholder support levels in the prior year, we believe that unions tend to negotiate a deal with the management and then withdraw the proposal. These proposals generally do not reappear in the following years, implying that management has in fact negotiated a settlement with the union.

While it is well-known that unions submit shareholder proposals strategically to put pressure on management, in this study we add to the literature by including proposal withdrawals as a culminating event in the union strategy to further their self-interest. Specifically, unions sometimes resubmit proposals that have been voted on and garnered significant support in the prior year. About 50 per cent of those resubmitted proposals are withdrawn prior to the annual shareholder meetings. Our conclusion is that unions withdraw proposals because they were able to negotiate a deal with management which furthers the self-interest of the union members at the expense of shareholder value.

We believe we have shown sufficient evidence to conclude that proposal withdrawal tactics are a significant part of the bigger strategic picture used by unions. We also believe that this area warrants more interest and more detailed investigation.

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Appendix. High approval rate proposals versus low approval rate proposals

We perform a two-sample Wilcoxon rank-sum test to compare the differences between the high approval rate proposals and the low approval rate proposals among all 70 withdrawn proposals with a prior voting record. The cutoff point between high and low approval rates is 50 per cent. The results are reported in Table AI.

Table AI Two-sample Wilcoxon rank-sum test

Variables	*p value*	*z value*
Executive compensation	0.95	0.069
Staggered board	0.51	0.654
Poison pill	0.87	0.170
Board independence	0.27	−1.105
Insider ownership	0.75	0.323
Block-holder ownership	0.77	−0.293
Herfindahl index	0.10	−1.611
Firm size	0.54	0.606
Market to book	0.23	1.190
Stock return	0.74	0.335

Note: The results in the above table show that there are no significant differences between the two groups

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