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Labor Union Proposals, Socially Responsible Investing, and Pricing and Investment Models

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Labor Union Proposals, Socially Responsible Investing, and Pricing and Investment Models

Introduction

The purpose of this thesis is to serve as a capstone for my undergraduate career within the Business program in the Honors Tutorial College at Ohio University. It will demonstrate that in my time here I obtained a depth of knowledge in finance as well as a well-rounded education that helped me to complete this project and prepare me for my transition from academia into the corporate sector. It will show that through the completion of many tutorials and literature reviews that accompanied them, I have developed the skill to write my own academic article.

The thesis will focus on financial analysis with a specification in the stock market, the models that explain this market, shareholder proposals - specifically socially responsible investing proposals, financial event studies, and labor unions. I will be analyzing actual data of shareholder proposals and stock prices that have been obtained from American companies over a span of seven years.

This academic paper will be organized in the following manner:

1. Abstract
2. Research Question
3. Literature Review
4. Methodology
5. Hypotheses
6. Empirical Design
7. Results of Testing
8. Conclusion
9. Areas of Further Research
10. Works Cited

Abstract

This article aims to answer the research question “Do labor union proposals promote socially responsible investing and thus improve pricing and investment models?” Through the use of a financial event study I found a positive correlation between Social SRI proposals and returns on securities of the corresponding companies. From a sample of 573 SRI proposals submitted by labor unions between 2003 and 2010, subsets were created, establishing 504 results for Corporate SRI proposals, 38 Environmental SRI proposals, 31 Social SRI proposals. Total SRI proposals, Corporate SRI proposals, and Environmental SRI proposals were found to have no statistically significant influence on security pricing. Given these results, further research should be conducted to determine what differentiates Social SRI proposals from the other subsets as well as the effects of SRI proposals submitted by labor unions on the value of debt for a company.

Research Question and Approach

Do labor union proposals promote socially responsible investing and thus improve pricing and investment models? This academic paper will assess the effects of labor union proposals on firms and investments in those firms. Labor unions are not well understood entities because they have multiple, and sometimes conflicting, incentives and effects on firms, markets, models, and investing. This paper will attempt to better explain labor unions by studying their effect on specific markets and models. Socially responsible investing is a topic that has been discussed and reviewed by many, as well as one that has been gaining momentum and support recently. This paper will attempt to draw connections between socially responsible investing and labor unions.

Are labor unions' attempts to influence companies to adopt socially responsible policies consistent with investors' interests? Unions are informed investors who have access to company-specific information because they represent workers at these companies. Numerous studies have shown that increases in information help investors make informed decisions and thus reduce information asymmetry.

In the context of this study, does SRI investing help investors lean more about targeted companies? Because the reduction of information asymmetry reduces price spreads and promotes more accurate pricing, will stock prices

be affected by labor union presence and proposals? I will attempt to answer these questions in this article.

Data has been obtained that will cover numerous firms, the labor union sponsors, and corresponding stock yields over a timeframe spanning seven years. Possible spurious variables will need to be addressed in the thesis as well as in the testing of data. The SAS statistical software package, Eventus, and Center for Research in Security Prices (CRSP) databases will be used to perform statistical testing on the data. The results will then be analyzed in an attempt to determine statistically significant relationships and causation. A conclusion will attempt to explain these relationships and causes as well as their significance. Furthermore, for areas in which the data is not sufficient to draw conclusions, recommendations will be made for future areas of research.

Literature Review

How Can Unions Affect the Value of a Firm's Securities?

The answer depends on the nature of the security – stock and bonds – which are first defined below:

The Stock Market

Investopedia, a highly respected online financial database and tool, defines stock as

> A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.
>
> There are two main types of stock: common and preferred. Common stock usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preferred stock generally does not have voting rights, but has a higher claim on assets and earnings than the common shares. For example, owners of preferred stock receive dividends before common shareholders and have priority in the event that a company goes bankrupt and is liquidated.

A study conducted by Jensen, et al. (1969) demonstrated clearly that the stock market changes constantly in response to new information. Participants of the stock market pay close attention to many details ranging from stock price to actions of the firm. This idea is the foundation of all financial event studies. In order for scholars to draw conclusions from movement in the stock market, they must assume that investors are attentive to new information and that investors react to new information by then making informed trade decisions in the stock market.

The Bond Market

Investopedia defines a bond as

> A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.

Mamaysky (2002) states that “Bonds are assumed to pay a fixed one dollar dividend at some prespecified point in the future, assuming that default has not occurred before then.”

Merton’s 1974 credit model, along with many other additions made by other authors throughout the years, shows that idiosyncratic risk as well as systematic risk affect a firm’s corporate credit risk. Merton also shows that idiosyncratic risk helps to explain yield spreads (Campbell and Taskler, 2003).

Based on Merton’s (1974) structure, there are three main perspectives that labor unions affect with regards to a firm’s credit risk. They are Asset Returns, Asset Volatilities, and Default Thresholds. According to Chen, Chen, and Liao (2011) there is one more: Firm Cash Flows.

How do Unions Affect Asset Returns and Risk?

Labor unions, as proven in numerous different studies, have many effects on a firm’s assets. Labor unions are associated with higher wages for employees (Lewis, 1986). Both Clark (1984), and Vender and Galloway (2002) show that this could hinder the profitability and productivity of a firm. A study performed by Card in 1996 showed that unionized workers earned 17% more than non-unionized workers. In a study completed by Becker and Olson (1986) it was noted that profits and sales suffer for a firm during strikes led by labor unions. Given all these results, it is apparent that with respect to Asset

Returns, labor unions lower cash flows of a firm and thus increase that firm's credit risk.

Default Threshold

When firms have high levels for financial liquidity, unions push for raising employee wages. For this reason, firms with unions have a higher debt level which inevitably reduces their liquidity in order to not pay their employees' higher wages. As stated earlier employees at unionized firms have higher wages. Because of this, unionized firms must pay more to employees before they can make payments to bond holders. These results also show that labor unions increase a firm's credit risk.

Firm Cash Flows

A study by Klasa et al. (2009) hypothesized that in order to protect corporate income, firms will allocate their wealth in assets other than cash. This also decreases a firm's liquidity and increases their credit risk.

According to a study by Chen, Kacperczyk, and Ortiz-Molina (2010), nonfinancial stakeholders, such as employees, can have an impact on corporations by threatening to withhold their work from the corporation, thus reducing its ability to function. This same study states that in most cases bondholders' and workers' interests are aligned because both receive payments unrelated to the firm's performance. But in cases of a company nearing bankruptcy, the interests diverge because workers will support causes

that keep the business alive. This, in turn, increase bond yields, against the interest of bond holders. For this reason, it is uncertain if labor unions, which exist to serve workers, will benefit or hinder the interests of bondholders.

It was found in a study by Chen et. al (2011) that labor unions are favored by bondholders. The difference of a lower bond yields in unionized industries was statistically significant. This study brought to light some possible spurious variables. Labor unions mainly exist in certain industries which have their own characteristics that could affect the bond yields of the firms in that industry. Unionization is related to greater corporate governance which may affect bond yields as well. Unionized workers may be more averse to risk, reducing research and development and minimizing the possible returns for bondholders. Labor unions may fight takeovers to protect their workers, lowering the debt risk and enacting policies that make the firm less of a target to be acquired, which reduces the bond yield. There is also evidence that shows that labor unions will enlist the help of outside entities to prevent takeovers that would benefit lenders like bondholders.

However, by reducing the probability of default risk, labor unions increase bond values. Labor unions also act to increase debt value by fighting to decrease equity value. Klock, Mansi, and Maxwell (2005) demonstrated that firms can contain governmental policies and practices that are helpful for bondholders but are detrimental for shareholders. This study found that in their attempt to provide for their members, labor unions also benefit bondholders.

The Two Sides of Union Presence

Labor Unions as Employees

Unionized workers at their most relevant in 1954 accounted for 39.2% of the U.S. workforce. Since then, the amount of unionized workers has declined to 11.3% in 2012 (Congressional 1993, Bureau of Labor Statistics 2012). Although they have declined in size, labor unions are still a prominent stakeholder in today's market.

Labor Union Strength and Security Pricing

Because labor unions can hold strikes and reduce a firm's ability to perform, they may increase the firm's Asset Volatility. However, firms with labor unions have less risky investments which benefit bondholders.

Schwab and Thomas (1998) lay out the basic process of labor unions working for their members. First, labor unions will gather members at a non-unionized company. Second, labor unions will then debate and bargain with management to achieve the goals of their members, the employees and reach an agreement. Third, labor unions will ensure that management completes their end of the bargain typically by monitoring employee complaints. Historically, labor unions achieved their goals through striking and picketing against uncooperative firms. Schwab and Thomas also highlight that labor unions attempt to benefit their members by arguing to management that their employees deserve a greater share of the profits (increased wages, increased

benefits, improved working conditions) or by increasing the overall profit of the firm and thus increasing the profit to their members. This second practice is referred to as win-win bargaining or value-added unionism. Win-win bargaining or value-added unionism is typically more successful for labor unions especially in shareholder activism because it benefits numerous shareholders, employees, and management alike.

Schwab and Thomas then discuss the legal literature surrounding labor unions and its declining impact. The National Labor Relations Act (NLRA) outlines and regulates the aforementioned functions of Labor Unions and promotes their use while stating that employees have the decision whether or not to be a member of a union at their place of employment. Labor unions, however, have become progressively more unsatisfied with the NLRA and their own diminishing significance in the American free market, with many calling for the repeal of the NLRA. This is unlikely to occur thus labor unions have found the need to employ different strategies to meet their goals while still operating within the legal boundaries.

Unions then began using the tactic of “union corporate campaign,” which is a term used to describe numerous different practices. These practices include consumer boycotts, disruption of the company’s credit and borrowing practices, proxy contests, and public relations schemes. Management views these practices as simply disrupting the procedures of the business and harming its reputation simply to pressure management into entering into an

agreement with the labor union. Schwab and Thomas then go on to explain the growth of labor unions into their new role as shareholders.

Chen et. al (2011) in a study of bond yields from 2001 to 2007 found that union strength is positively correlated to bond yield spread. However, this was only the case when the variables of leverage, equity volatility, maturity, coupon issuance amount, information uncertainty, information asymmetry, and cash flow volatility were controlled. This study also concluded that when firms had higher bargaining power unions had less effect on bond yield spreads. In addition, the study shows that union volatility is negatively correlated with bond yield spreads.

Hilary (2006) found that labor strength was positively related with bond spreads and the probability of informed trading and was negatively related to trading volume and analyst coverage. Hilary concludes that labor unions are associated with greater information asymmetry because management deems it necessary to withhold information from labor unions to increase their bargaining power. Hilary demonstrates this fact by referencing numerous articles including an experiment performed by Croson (1996) which showed “Proposers” offering much less to “Responders” if the responders were not informed about the actual value behind the offer. Hilary, however, does show that with regards to investing, investors will completely discredit the quality of an investment offer if the manager is withholding information (Jovanovic, 1982; Dye, 1985; Jung and Kwon, 1988). Subsequently, Chen et. al (2010) found

that firms in more unionized industries have lower bond yields, bond yields of financially weak firms are more negatively influenced by labor unions, unionization is correlated with less investment in research and development, and with reduced probability that the firm will be the subject of a takeover. These findings show that labor unions not only protect unionized workers, but also bond holders and other “fixed claimants”.

Agrawal (2011) found that rather than supporting actions that increase equity value, union pension funds support actions that benefit their members. In opposing management labor union pension funds help their members but decrease equity value. The study also found that management reacts to voting by large shareholder entities.

Based on these findings it would be more beneficial for the manager to be transparent and eliminate information asymmetry. Managers cannot do this though, because they must represent and cater to the interests of all parties.

Labor Unions as Organized Shareholders

Shareholder Proposals

Labor unions attempt to influence companies through shareholder proposals. Shareholders can propose action to be taken by corporate executives under Rule 14a-8 of the Security and Exchange Commission. These proposals must be 500 words or less in length and management is required to include all proposals in proxy solicitation materials. Shareholders

then vote to express their preference on the issue in discussion. It should be noted that even if these proposals receive majority vote, they do not become binding law that management must follow. The purpose of shareholder proposals is simply for shareholders to express consensus on an issue and for management to be made aware of this consensus. This rule provides guidelines and requirements for both the proponent and recipient of the shareholder proposal. The recipient of each proposal, the corporation, is required upon receiving notice of the proposal is required to include the proposal in its proxy material and provide a way for all shareholders to vote on the proposal. Also under rule 14a-8 are guidelines by which the proposal must abide. If the shareholder fails to meet these regulations, the corporation can reject the proposal outright. If the shareholder meets all requirements and the proposal is included on a ballot, the shareholder can then include a supporting statement explaining why other shareholders should support the proposal. In response, the corporation can include a counter argument with no restrictions on the length of the counterpoint. The corporation can also include the name, address, and number of shares owned by the shareholder proponent. If management decides that the proposal does not meet the requirements of Rule 14a-8 they can reject the proposal before putting it to vote but must prove to the SEC that the proponent did not meet all requirements. If the SEC agrees with the company, they will release a “no action” letter, meaning they will not pursue legal action against the firm for excluding the proposal.

Much consideration and debate have been given as to the importance and effectiveness of shareholder proposals as a form of control over management in a company. Bebchuck (2005) argues that shareholder proposals are effective at solving problems related to decisions made by management. Harris and Raviv's (2008) theoretical model support this theory by showing that regardless of a shareholder's knowledge or motivation surrounding the issue, it is beneficial for shareholders to enter proposals to attempt to impact management decisions. However, Prevost and Rao (2000) show that because shareholder proposals are typically used as a final effort after shareholders have met with management to come to an agreement on the topic, shareholder proposals may be viewed by the market as managerial inflexibility. This could be detrimental to the company's price, and as stated earlier, shareholder proposals are not binding, thus rendering shareholder proposals ineffective.

Schwab and Thomas (1998) address a legal concern surrounding labor union shareholder proposals. As stated earlier shareholder proposals are bound by Rule 14a-8 of the SEC. Labor unions have been accused of violating some aspects of Rule 14a-8, specifically Rule 14a-8(a)(4). Rule 14a-8(a)(4) limits shareholders to submitting one proposal and one accompanying statement per proxy material submission. Labor unions violate this rule when they use multiple members to submit multiple proposals and have been known to do this. The SEC, in response to this alleged violation, requires that labor

unions submit only one proposal, not being able to use multiple members to submit other proposals. It is, however, difficult for companies to prove to the SEC that one proponent is submitting a proposal on behalf of another proponent and thus difficult for the SEC to determine that a proposal should be voided because one proponent (the labor union) is essentially submitting multiple proposals. Only one proposal was rejected for violation of this rule in 1996, and only one challenge was submitted to the SEC for violation of this rule in 1997.

Corporations have historically also attempted to negate a shareholder proposal by other SEC regulations. Rule 14a-8(c)(4) is the “Personal Grievance” exclusion. Under this clause management can reject a proposal if the proposal is being used for personal gain by the proponent against the company and is not a grievance held by other shareholders. The SEC enacted this clause as a safeguard for companies. This rule attempts to prevent a shareholder proponent from hassling a firm to achieve a goal specific to the proponent that is not shared by others. This would ideally prevent labor unions from abusing their power as shareholders by not allowing them to bully management into submission over a topic only of interest to labor unions. The SEC, in deciding if the proposal is a personal grievance, examines the proposal and supporting statement but can also look beyond both. If judging that the claim is personal, regardless of its subject pertinence to other shareholders, can reject the proposal. This is typically the case when labor

unions use shareholder proposals in combination with a myriad of other tactics in an attempt to achieve its objective from the company. The SEC requires that firms prove that the shareholder proposal is simply allowing labor unions to partake in corporate campaigning, which will be discussed later in this article. Corporations attempt to reject shareholder proposals that would benefit only labor union members or employees and would not benefit other shareholders. These attempts are usually overturned by the SEC, which states that employees and shareholders are entitled to create shareholder proposals that would benefit their members. Labor unions are rarely rejected in their shareholder proposals for this clause especially when pertaining to corporate governance issues.

The SEC also created Rule 14a-8(c)(7), “ordinary business” exclusion. This clause permits companies to deny shareholder proposals on the basis that they apply to the day-to-day practices of the firm. Firms have more success in applying this regulation to shareholder proposals. Schwab and Thomas give example of a proposal being rejected by the SEC because it dealt with the ordinary practices of the firm even though it also contained issues of social policy, the discrimination of employees based on their sexual orientation.

An event study by Prevost and Rao (2000) found results contrary to previous studies on the effects of public pension fund shareholder activism. The results showed a decline in wealth for companies which were targeted by

public pension funds surrounding their proxy mailing dates. Prevost and Rao interpreted these results to signify that a formal shareholder proposal is received as an indicator that all other forms of negotiation between funds and management have failed. Attempting to further examine the results, Prevost and Rao divided the sample by companies that are targeted once with a shareholder proposal from a public pension fund and companies that are targeted multiple times during the sampling period. Their results show that firms targeted only once receive a decrease in returns. This decrease is temporary, whereas firms targeted multiple times receive sustained decreases in returns as well as decreasing performance. Both subsets, however, have weaker corporate governance.

Labor Unions and the Use of Shareholder Proposals

Labor unions are one of the strongest proponents of shareholder activism. Conventionally, labor unions have led and have supported causes that solely benefit employees of the respective company even at the expense of other stakeholders. Recently, however, labor unions have supported changes at corporations that should benefit multiple, if not all stakeholders involved.

Labor unions, as they currently exist, constantly face a conflict of interest. Their role as collective bargaining agents calls them to maximize the benefits given to their members as employees of the company, which often

reduces the profitability of the company. However, as stewards of their members pension funds, they are called to maximize the company's profitability and consequently maximize the value of the pension fund. Conversely, labor unions may have access to information not made available to the public which makes them more informed and thus effective shareholder activists. Given this conflicting information, the impact of Labor unions is not fully understood.

Thomas and Martin (1998) give a brief history of labor unions' entrance into shareholder activism. Union pension assets grew greatly in the 1980's and 1990's. In 1993, 1580 labor unions had over one million dollars in assets. Employee Stock Ownership Plans (ESOP's) were created by corporations to prevent takeovers but have evolved into participating in shareholder activism. Throughout the mid 1980's, public pension funds began to gain support and momentum, eventually using their positions as shareholders to push for corporate governance change. In 1987, the first group of shareholder proposals by public pension funds began with sponsors like the California Public Employees Retirement System (CalPERS). The principal theme of early public pension fund shareholder proposals surrounded takeovers regarding issues like rights plans or "poison pills", greenmail payments, and antitakeover statutes. Labor unions then turned their attention to large stock purchases, confidential voting for corporate elections eventually focusing on board independence, executive pay, golden parachutes, supermajority vote

requirements, and staggered boards. Labor union pension funds supported public pension funds through this time but began their own push towards activism in the early 1990's. In 1991, the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO) urged their members to pursue activism at their respective firms. The Industrial Union Department (IUD) of the AFL-CIO echoed this call in 1992 imploring their members to influence corporate governance.

In 1992, the SEC simplified their federal proxy solicitation rules through two amendments, and in 1994, the Department of Labor published proxy voting guidelines. The two amendments by the SEC, though they did not directly affect Rule 14a-8, were 14a-1(1)(2) and 14a-2(b)(1). Rule 14a-1(1)(2) allows shareholder proponents to share why they will be voting for their own proposal. Rule 14a-2(b)(1) allows shareholders to discuss their proposal with other shareholders even after the proposal has been placed on the ballot to attempt to gain support for their proposal. This allows shareholders to operate and speak freely about their own proposals without worrying about failing to meet an SEC requirement that could cost them their proposal or a large monetary sum. The Department of Labor encouraged others, specifically private pension funds, to become shareholder activists. The DOL recommended focusing on areas like board of directors candidates' expertise, executive compensation, long term business plans, and mergers and acquisitions. In 1994, labor union shareholders proposed 80 corporate

governance proposals and received majority vote on seven of those and filed 75 in 1995.

There is conflicting evidence as to the role that labor union pension funds perform. Schwab and Thomas (1998) show that labor unions can use shareholder proposals to pursue their own selfish objectives; however, there is evidence of labor unions using their position to benefit the company as well as other shareholders. Like Schwab and Thomas mentioned earlier, labor unions can use their shareholder proposals to increase the profitability of the company, thus improving the income of their members while also benefitting other shareholders. Schwab and Thomas also illustrate that labor unions have used shareholder proposals to create a new function that they then can fulfill, that of influencing structure and strategy within a company. This role presents a unique opportunity for labor unions to recreate win-win bargaining or value-added unionism. If through affecting corporate strategy, a labor union can increase the value of the firm and secure rights for their member, they can benefit both shareholders and workers. Schwab and Thomas highlight that union shareholder activism is likely to be effective only if they can gain the support of a majority of shareholders. For this reason, unions will have to prove that their proposals are beneficial to the worth of the company.

Schwab and Thomas then discuss labor union interest in corporate government structure and pose four possible reasons for it. The first and most obvious of these reasons being that labor unions have large human capital

invested in these companies. The second reason Schwab and Thomas provide is labor unions' unique position that enables them to monitor the proceedings of the firm. Thirdly, unions operate outside of the typical corporate governance system, removing them from the conflict of interests that other shareholders may face. Lastly, unions may use corporate governance policy to increase the value of the retirement component of worker compensation to raise the value of the pension fund held by their members.

Schwab and Thomas then discuss labor unions' privilege and position to monitor the practices of a company. Because labor unions represent workers at a company, they have a much higher incentive to monitor the practices of that company and ensure that the company is succeeding. Thus, labor unions do not rely on information gathered by other shareholders, but rather are constantly monitoring the progress and practices of a firm. Labor unions can do this by working closely with firms to acquire and evaluate data from internal and external sources. Labor unions could then pass on this information to other shareholders creating a sustainable role for themselves as gathers and conveyers of detailed, accurate, and current information. Labor unions employ accountants, economists, human resource specialists, and lawyers to help them evaluate the information they receive. Labor unions are highly informed, allowing them to make informed decisions as shareholders.

Thomas and Martin (1998) conducted an event study to determine if labor unions should be able to use shareholder proposals as a means to

achieve their goals. Data was acquired totaling 192 shareholder proposals from 1994. These proposals were submitted by public institutions, private institutions, individuals, and labor unions and included topics of internal and external corporate governance. The results indicate that labor union proposals received a significantly higher percentage of votes for their proposals than did proposals submitted by private institutions and individuals. It was also found that labor union proposals received essentially the same amount of positive votes as did proposals by public institutions. Additionally Thomas and Martin found that even when the proposals were deemed as a "corporate campaign" by management, the proposals by labor unions received the same average amount of votes as normal proposals. From these results, Thomas and Martin infered that even in instances where labor unions are debating with management, other shareholders view labor union proposals as equal to those proposed by other public institutions. They believed this signifies that management's fear of labor union shareholder proposals as a way to gain leverage over management is excessive.

Romano (2001) illustrates the growing relevance of unions stating that since 1994 unions have been the largest contributor of corporate governance shareholder proposals, adding that many of these were submitted with the proxy mechanism. Although most research of shareholder activism focuses on public pension funds, Romano suggests that due to the similarity between public pension fund proposals and union proposals and the votes they receive,

union activism should be studied in the same manner. Romano acknowledges that public pension funds and labor union pension funds are more likely to partake in shareholder activism, or rather that private pension funds and mutual funds are less likely to partake in shareholder activism because private funds are stricter on their spending and allow activist funds to engage in costly activism for them. Romano also shows that some proposals contain topics that would clearly benefit the labor unions that sponsor them, thus increasing their incentive to participate in shareholder activism. A typical shareholder proposal promoting labor union objectives is progress on labor issues. Romano also demonstrates that there are numerous shareholder proposals that give unions "private benefits", namely those that fight against management. Examples of these types of proposals include repealing takeover tactics, reducing executive pay, and increasing board independence. Romano goes on to add that these proposals not only benefit labor unions in their debates with management but may also help unions gain support from other shareholders and investors.

Bainbridge (2006) argues against Bebchuck's call to rely on public employee and union pension funds to enact shareholder proposals and change, stating that these two block shareholders are likely to use their shareholder power to achieve their own selfish pursuits. Bainbridge defends his position by referencing an incident at Safeway where a union pension fund attempted to expel directors who had opposed the union in collective bargaining negotiations. He states that similar instances occurred in over 200

corporations in 2004. It appears that union pension funds attempt to achieve through shareholder proposals what they cannot achieve in bargaining.

Prevost, Rao, and Williams (2009) performed an event study to determine if labor unions face a conflict of interest and to determine if labor unions are effective at monitoring the procedures of a business and relaying that information to other shareholders. Prevost et. al found that labor union shareholder proposals do not differ significantly from other shareholder proposals with respect to votes for a proposal. They do find, though, that there is a statistically significant more positive response to proposals that receive a majority vote at unionized target firms. They also find that this subset of results is correlated with higher outside board representation and decreased CEO equity incentive compensation. According to this study labor union shareholder activism is not correlated with changes in labor costs or productivity. Thus, they determine that labor unions do not suffer from a conflict of interest or abuse their shareholder privilege to gain more for their members.

To summarize, throughout the many years of research, conflicting evidence has been found. Some research suggests that labor unions as shareholders function only to selfishly serve themselves and their members while ignoring or working against the objectives of management and other shareholders. Still, other research suggests that labor unions as shareholders benefit many different shareholders and work to benefit many shareholders. Romano (2001), Bainbridge (2006), and Anabtawi and Stout (2008) argue that

labor unions cast proxy votes to achieve objectives for their members, while Schwab and Thomas (1998), Martin and Thomas (1998), and Prevost, Rao, and Williams (2009) find that labor union activists do not use their position as shareholders to pursue the interests of union members.

Impact of Labor Unions, as Shareholders, on Company Policies

Karpoff (2001) conducted research on the effect of labor unions and found that their short-term impact on stock prices is insignificant. They appear to not be “associated with subsequent changes in earnings, capital expenditures, earnings payout, CEO turnover, CEO compensation, or likelihood of a control change.”

Ferri (2010) shows that in the “Enron era”, boards have received greater pressure to respond to shareholder requests. This allowed for shareholder activism to cause changes in areas like CEO compensation, changes in governance structure, as well as other areas. Ertimur, Ferri and Stubben (2010) illustrate the growing relevance of shareholder activism in the past two decades, noting that from 1997 to 2004 majority support of proposals increased from approximately 10% to 30%.

Research conducted by Thomas and Martin (1998) states that because labor unions have access to information not available to other investors, they can effectively monitor executive compensation plans. Branching off this research, Schwab and Thomas (1998) conclude that even without information

unavailable to others, labor unions can benefit shareholders due to their independence from other institutions. This independence allows labor unions to clearly identify actions by management to aid them and then oppose said actions.

Corporate Social Responsibility

Corporate social responsibility is defined by Holme and Watts (2000) as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." In past years, CSR was approached by US companies from a philanthropic standpoint where companies would generate profits then donate some of their earnings to a charitable cause. In more recent years, companies have integrated CSR into their business practices.

Reich (2008) argues that corporate social responsibility is not sustainable by businesses because the general public expresses support for social responsibility but is not willing to pay more for socially responsible products. Reich sites two product examples: Starkist tuna and Levi's jeans. Starkist tuna began fishing for tuna in a way that prevented the harm of dolphins as collateral damage, but this method was considerably more costly for Starkist. When customers were unwilling to pay more for this socially responsible product, Starkist was forced to return to its more cost effective

method of fishing. Similarly, Levi's ceased its production of jeans in China in response to the events of Tiananmen Square. But when customers were not willing to pay more for jeans produced in other countries, Levi's restarted its production in China. Reich also argues that when corporate social responsibility is enacted effectively, it is done not because it is moral but because it helps bottom line productivity. Reich offers the example of Starbucks providing health care for its part time employees. This helps Starbucks reduce employee turnover and lower costs.

Socially Responsible Investing

It is believed that socially responsible investing began centuries ago when religions instructed their believers on how to handle their money. Some religions that have recording teachings on these subjects include the Christian, Islamic and Jewish faiths. Now, socially responsible investing revolves around the general public's increasing awareness and care for social causes. The first socially responsible investment mutual fund was created in 1971 to oppose the Vietnam War. Many socially responsible investments responded to crises harming nature, like Chernobyl and the Exxon Valdez oil spill, by focusing on environmental standards. More recently, socially responsible investing has focused on corporate structure and guidelines in response to numerous corporate scandals. With more legislation being passed like the Sarbanes-Oxley Act of 2002, as well as many others in Europe, it is likely that socially responsible investing will continue to grow in relevance.

Socially responsible investing, as defined by The Social Investment Forum (2005) is “an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis.” Socially responsible investing increased by over two hundred and fifty percent from 1995 to 2005.

Socially responsible investing has three main types of funds as outlined by Beardsell (2008). They are: Exclusion funds, Funds with a high Shareholder Commitment, and “Best in Class” funds. Exclusion funds use screening which occurs when certain firms that are negatively perceived are kept out of mutual funds. Among many others, labor relations is a screen that can be used to decide which companies will be included in the mutual fund, and thus funded. Screens can function as negative screens, which list activities that would exclude a firm from being included in a portfolio or as positive screens, which meet superior Social, Environmental, and Ethical standards. Common negative screens include tobacco, alcohol, and weapons manufacturing, while common positive screens include corporate governance, sustainability and diversity. Funds with high share holder commitment or shareholder advocacy occur when shareholders promote corporate social responsibility to management. “Best in class” funds use benchmarks like the Dow Jones Sustainability indexes but then only select companies that excel in areas of environmental, social, and governance. Socially responsible investing covers a breadth of causes from social to environmental, from governance to

sustainability. Portfolios can be constructed through socially responsible investing that contain socially responsible firms and perform as well or better than other portfolios.

Many investors are hesitant to invest in socially responsible firms because they believe that these firms will use their assets to invest in social or ethical causes and thus reduce the amount they can give to shareholders. Conversely, other investors believe that a firm's choice to pursue social or ethical causes can create new opportunities and give that firm an advantage over other firms. Supporters of socially responsible investing believe that firms focused on social causes are consequently focused on long-term practices rather than short-term practices, and thus will be profitable in the future.

It was found in a study by Renneboog et al. (2006) that investors who study socially responsible investment portfolios are more concerned with past positive returns than past negative returns. It was also discovered that funds that had more screens in place brought in more money than those with less screens. Ethical and Environmental screens attracted less revenue. It was also apparent that investors in socially responsible investment funds were more willing to pay for their portfolios to be managed.

Indexes have been created that contain socially responsible firms. However, these indexes contain different firms with some overlap because they focus on different aspects of social responsibility. Some of these indexes

are the Calvert Social Index, Citizens Index, the Domini 400 Social Index, and the U.S. portion of the Dow Jones Sustainability Index. The Domini 400 Social Index excludes companies that sell harmful products, like alcohol or tobacco, or companies that receive negative results in diversity, employee relations, and the environment. The Calvert Social Index focuses on the companies' workplace, product safety and impact, international operations, and human rights, among other things. Citizens Index excludes companies that sell alcohol, tobacco, help manufacture weapons, or lack diversity on their board. The Dow Jones Sustainability Index differs greatly from the previous three indexes. Instead of eliminating all companies that sell alcohol, tobacco, or gambling, the Dow Jones Sustainability Index includes the top performers, with regards to a preset standard, in these industries along with other industries. The Dow Jones Sustainability Index focuses more on sustainability than any other of the social causes. These differing indexes demonstrate that there will always be debate as to what constitutes a socially responsible company. Schepers and Sethi (2003) demonstrate that due to the wide range of SRI fund criteria, investors' expectations and fund results do not always match. Beardsell (2008) also acknowledges that global companies struggle to achieve corporate social responsibility because these standards vary between countries, are complex, and in some cases are contradictory. Elkington (1994 and 1998) established the Triple Bottom Line. The TBL promoted CSR by urging managers to consider not only the financial bottom line, but also the

“social bottom line” and the “environmental bottom line”. The TBL approach was criticized by MacDonald and Norman (2004 and 2007) as unnecessary because social and environmental bottom lines are not measurable, serve only to please certain stake holders, and could distract management from actually achieving results in those areas.

Heinkel, Krause and Zechner (2001) created a theoretical model to determine the effects of SRI screening on investments to companies that did not meet SRI guidelines and consequently the effect of the investments or lack thereof on these companies. The model had two assumptions: 1. Investors are either green or neutral with regards to SRI policies and 2. Each firm has access to two technologies, a clean technology and a polluting technology that they must choose between. The study found that investors can cause companies to adopt green practices. When mutual fund managers screen out companies that do not meet the SRI guidelines, prices of polluting companies fell, incentivizing them to adopt greener practices to qualify for funding from SRI screened mutual funds. Renneboog et al. (2007) found that companies that perform well in areas of corporate governance, environmental standards, and management towards stakeholder relations can create value for shareholders; however, companies that focus on SRI policies in other areas reduce shareholder values.

The literature review section of this article contains extensive research on bonds, stocks, labor unions as employees, labor unions as

shareholders, shareholder proposals, socially responsible investing, and corporate social responsibility. My thesis will attempt to combine these areas of knowledge to discover and examine a yet unexplored gap in current literature.

To summarize the research of this article, the debt and equity of companies can be affected by their shareholders. Labor unions function as employees and shareholders within the company at which they represent members. Given their position as employees and shareholders, labor unions have a unique opportunity to influence managerial decisions. The most prevalent manner by which labor unions accomplish their objectives is shareholder proposals. Socially responsible investing proposals have grown in frequency and subject matter in recent years. Labor unions have adopted the use of SRI proposals as a means of influencing management. This information begs the question: can labor unions use SRI proposals to positively affect stock pricing of the companies they work with?

Methodology

For this project I used an event study, as is common practice in financial research. Event study methodology is used to determine the effect of an event on a dependent variable. Stock price of a company is the most

common dependent variable in financial articles and the one used in my study. Kothari and Warner (2004) confirm that the primary objective of a financial event study is to determine the abnormal performance of a stock as a result of a specified event. This, in turn, will denote the worth of the event to the shareholders of the firm. Financial event studies also serve to examine market efficiency. If a security continues to consistently gather abnormal returns after a specified event, economists would determine capital markets to be inefficient. This is because the market should recognize the relation between the event and the abnormal returns and gravitate toward or away from that security, thus reducing the abnormal returns. Therefore, when event studies fixate on long-horizons, they supply information about the efficiency of the market to financial analysts.

Historically, financial event studies have calculated excess returns based on the monthly mean abnormal return and monthly cumulative mean abnormal return of a security's price over an estimation period. More recently, with more accurate and in-depth data, financial event studies rely on daily returns of stock rather than using monthly returns like those used in older event studies. Additionally, the methods and formulas used to calculate normal and abnormal returns and the methods and formulas used to calculate the statistical significance of the returns have become more detailed and accurate.

Over 500 financial event studies were conducted and published in the five most prominent financial journals (the Journal of Business, Journal of

Finance, Journal of Financial Economics, Journal of Financial Quantitative Analysis, and the Review of Financial Studies) between 1974 and 2000.

The event in question through my study is socially responsible investing proposals submitted by labor unions. I seek to find abnormal returns on stock prices in the specified event window based off of the SRI proposal date.

The steps of the event study are as follows:

1. Identify the Event

   Data from shareholder proposals was sorted to identify proposals which were made by labor unions and which focused on common SRI themes. Data was first sorted by “Shareholder Proposal Type” and filtered, leaving only proposals that contained common SRI themes. Then data was sorted by “Proponent” and filtered, leaving only proposals that were submitted by labor unions. Given this sorting method, only data points that reflect SRI proposals submitted by labor unions remained. This process was completed for proposals from 2003 to 2010. Then all data was combined into a final data set. Data was further sorted by creating a column for “Corporate”, “Environmental”, and “Social”. Each proposal was categorized into one of the three aforementioned areas, and a value of “1” was placed in the respective column for indication. Each data point contained a value “Date filed”. This information was used as a reference for the event window.

2. Identify Estimation, Event, and Post-Event Windows

   The Estimation window was defined as being from 211 days prior to the proposal date to 11 days prior to the proposal date. The Event window was defined as the proposal date taken from the data. The Post-Event window was defined as one day prior to the proposal date to one day after the proposal date. These dates were used to determine if statistically significant change in the stock price occurred from before to after the proposal date given a baseline of 200 days of stock returns prior to the proposal.

3. Estimate Parameters Using the Estimation Window

   Given that I have outlined the estimation window, I used the CRSP index to compile returns in that window and then use the formula for the Securities Characteristic Line “Ri = α + βRm + ε” to determine the α and β for each firm. I use the market model defined as “Rit = αi + βiRmt + εit” and “E(εit = 0)” where Rit is the return of stock i during time t, Rmt is the market return during time t, and εit is the zero distribuance term. αi and βi are parameters for the model.

   This model was chosen because it provides improvement over the previous model: the constant mean return model. This improvement is found in the elimination of the part of the return that is related to market variation. This diminishes the variation in the abnormal return, giving

researchers a better ability to understand the effects of the event in question.

4. Measure Abnormal Returns in the Event Window

   The abnormal return is the actual return of the stock over the event window minus the estimated return of the security over the event window based on the performance of the stock during the estimation window. Using the formula “ARit = Rit – αi – βiRmt” where ARit is the abnormal return, Rit is the return of stock i in the event window t, αi is the abnormal return for stock i calculated in the estimation window, βi is the correlation with the market portfolio of stock i calculated in the estimation window, and Rmt is the return of the market portfolio during the event window t, I calculate the abnormal return for each stock.

5. Aggregate Abnormal Returns

   The abnormal returns must then be combined to determine if the overall effect of the event was significant using the Cumulative Abnormal Return formula. The formula is as follows: CARi(τ1, τ2) = Σ ^ τ2 ᵛt=τ1 ARit where τ1 is the estimation window and τ2 is the event window.

Hypotheses

Why are labor unions interested in socially responsible investing? As I discussed in the literature review, labor unions are shareholders in the

companies they represent and thus are affected by the performance of the company for which their members work. Thus, labor unions could use SRI proposals as a way to improve the image of the company, and improve the return of the company's stocks and bonds. This would increase the profitability of the company and benefit their members through overall corporate success. Conversely, labor unions use proposals to attain favorable conditions for their members from corporate management through bargaining. It is possible that labor unions could use SRI proposals as a way to gain leverage over management, forcing them to give into the demands of the labor union. In this scenario, management must allocate valuable resources to accomplish the requirements created for them by the SRI proposals.

Hypothesis 1

Socially responsible investing proposals by labor unions negatively affect corporations' prices. Because labor unions use SRI proposals as leverage over management, management is forced to allocate time, resources, and funds to conforming to the regulations set forth by the SRI proposals. This redirects time, resources, and funds that would otherwise be channeled towards bottom line profitability, limiting the performance of the company and reducing prices.

Hypothesis 2

Different types of socially responsible investing proposals affect prices differently. There are three main divisions of SRI proposals: Environmental, Social, and Corporate. Because these three divisions cover a vast array of different issues, it is probable that they affect pricing models differently.

Hypothesis 2a

Environmental socially responsible investing proposals negatively affect prices. Environmental SRI proposals include the issues of Climate Change, Hazardous Waste, Nuclear Energy and Sustainability. While these issues are beneficial to the preservation of the environment, it is likely that when companies are forced to allocate more resources to abide by more rigorous guidelines their profit margins and sources of funding will suffer.

Hypothesis 2b

Corporate socially responsible investing proposals negatively affect prices. Corporate SRI proposals include the issues of Management Structure, Employee Relations, and Executive Compensation. In recent years, Corporate SRI proposals have gained momentum especially in response to the economic crisis of 2007. When labor unions debate with management about corporate issues like employee relations and executive compensation, the productivity and profitability of the company can decrease greatly. Investors will not respond positively to reduced profitability.

Hypothesis 2c

Social socially responsible investing proposals positively affect prices. Social SRI proposals include the issues of Diversity, Human Rights, Consumer Protection, Sin Stocks (Alcohol, Tobacco, Pornography, Gambling, and Armaments), and Animal Welfare. These issues are highly valued by some investors. When investors learn of Social SRI proposals and presume action to be taken by the companies receiving the proposal, the demand for the company's stock will increase, raising the price of that stock.

Empirical Design

The data is supplied by GMI Ratings and is composed of 573 shareholder proposals put forth by labor unions from 2003 to 2010. The proposals appeared on the proxy statements to be voted upon at the annual meeting. These shareholder proposals contain themes of socially responsible investing. Accompanying each of these proposals is a filing date which is used as a time frame by which to compare stock returns before and after the proposal. I use the formula for the Securities Characteristic Line "$Ri = \alpha + \beta Rm + e$" where Ri is the return of an individual stock, α is the asset's abnormal return, β is the sensitivity of the individual asset to the market, Rm is the return on the market, and e is the idiosyncratic risk. I will use variations of this formula to determine whether or not the change in each stock's actual return differs from expected return, using the estimation period for each stock to

calculate the alpha and beta regression parameters. The predicted return on each stock can be calculated as $\alpha + \beta Rm$. As stated earlier, Ri is the return of each stock, thus the abnormal return on each stock can be calculated as $Ri - (\alpha + \beta Rm)$. Within the program SAS, Eventus software was used to examine stock returns over a determined period of time. Eventus uses a Cusip and a Permno tag specific to each company as a way of identifying which stocks to examine from the CRSP database. These tags, paired with proposal dates, outline which stocks to analyze and at what time to do so. Based on the proposal date I asked Eventus to track stock prices of each company from 211 days to 11 days prior to the proposal. These returns establish an expected return of the stock, as well as expected change in the stock value which can then be compared to the actual return of each stock after the proposal. The comparison of the expected and actual return will determine whether the proposal had a statistically significant effect on the stock return. Eventus then analyzed the stock returns from one day before the proposal to one day after the proposal to calculate the return of each stock, as well as the change in value from each stock. Each of these returns was compared with the corresponding returns from 211 days to 11 days prior to the proposal, and Eventus calculated the difference.

Results of Testing

After running the testing in the SAS program, I then transferred the results to Excel to format and analyze them. I ran three tests to determine the statistical significance of SRI proposals on stock prices. The three tests were Market Model, Equally Weighted Index; Scholes-Williams Market Model, Equally Weighted Index; and Comparison-Period, Mean Adjusted Returns. Below are the results for each test with the entire sample of SRI proposals by labor unions. For all test results the symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a two-tail test. The symbols (,< or),> etc. correspond to $,* and show the direction and significance of the generalized sign test.

For all 573 SRI proposals by labor unions and the corresponding stock prices the results are:

SRI Proposals						
Market Model, Equally Weighted Index						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	573	-0.12%	-0.06%	284:289	-0.516	-0.611
(-10,0)	573	-0.18%	-0.04%	286:287	-0.106	0.239
Scholes-Williams Market Model, Equally Weighted Index						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	573	-0.13%	-0.07%	282:291	-0.616	-0.727
(-10,0)	573	-0.23%	-0.09%	292:281	-0.351	0.064
Market Adjusted Returns, Equally Weighted Index						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	573	-0.19%	-0.17%	263:310	-1.212	-0.599
(-10,0)	573	-0.33%	-0.29%	273:300	-1.267	0.73
Comparison-Period Mean Adjusted Returns						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	573	-0.11%	-0.16%	261:312(	-1.057	-0.894
(-10,0)	573	-0.12%	-0.40%	295:278	-1.416	-0.454

Looking at the results, there are no findings that are statistically significant in the Standard C section Z and Rank Test Z columns. While SRI proposals submitted by labor unions do not have a positive influence on stock prices, they also do not have a negative influence. This signifies that labor unions can use shareholder proposals to influence managerial decisions on SRI related issues without harming the stock price of the company. This would allow shareholders to support or work against labor union shareholder proposals without fear of how the SRI proposal would affect their position as a shareholder. Theoretically, these results should free shareholders from a conflict of interest between their shares' value and their opinion on the proposal when deciding on how to vote for the SRI proposal. This still,

however, called for more detailed and specific testing. As stated in the hypothesis section, the proposals were divided into Corporate, Environmental, and Social SRI proposals to examine the different subsets of SRI proposals by labor unions. There were 504 results for Corporate SRI proposals, 38 results for Environmental SRI proposals, and 31 results for Social SRI proposals. Below are the results of testing on the Corporate SRI proposals:

Corporate SRI Proposals						
Market Model, Equally Weighted Index						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	504	-0.22%	-0.14%	242:262	-1.152	-1.162
(-10,+1)	504	-0.21%	-0.02%	243:261	-0.011	0.047
(-10,+10)	504	-0.28%	-0.05%	251:253	-0.084	0.206
Market Adjusted Returns, Equally Weighted Index						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	504	-0.25%	-0.24%	227:277	-1.612	-0.935
(-10,+1)	504	-0.32%	-0.27%	228:276	-0.975	0.555
(-10,+10)	504	-0.50%	-0.53%	239:265	-1.534	0.601
Comparison-Period Mean Adjusted Returns						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	504	-0.16%	-0.23%	223:281<	-1.382	-1.309
(-10,+1)	504	-0.09%	-0.38%	252:252	-1.146	-0.477
(-10,+10)	504	0.15%	-0.42%	260:244	-0.951	-0.181

Just as with all SRI proposals, there were no statistically significant results with Corporate SRI proposals in the Standard C Section Z and Rank Test Z columns. This indicates that SRI proposals submitted by labor unions, as a whole, have no effect on the stock prices of the companies involved. Like the results on the entire data set, the results for Corporate SRI proposals

indicate neither a positive or negative influence on stock prices. As mentioned earlier, these results may prove to alleviate a conflict for shareholders as they weigh their motivations on voting for or against SRI proposals.

Below are the results from the three tests with Environmental SRI proposals submitted by labor unions:

Environmental SRI Proposals						
Market Model, Equally Weighted Index						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsectZ	Rank Test Z
(-1,+1)	38	0.13%	0.16%	20:18	0.38	0.854
(-10,+1)	38	-0.34%	-0.32%	16:22	-0.46	0.295
(-10,+10)	38	0.84%	0.88%	21:17	1.163	1.267
Market Adjusted Returns, Equally Weighted Index						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsectZ	Rank Test Z
(-1,+1)	38	-0.23%	-0.21%	18:20	-0.439	0.151
(-10,+1)	38	-1.02%	-1.17%	17:21	-1.517	-0.271
(-10,+10)	38	0.37%	0.33%	21:17	0.311	1.021
Comparison-Period Mean Adjusted Returns						
Days	N	Mean Cumulative Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsectZ	Rank Test Z
(-1,+1)	38	-0.11%	0.01%	19:19	0.015	0.761
(-10,+1)	38	-0.79%	-0.82%	16:22	-0.869	-0.585
(-10,+10)	38	1.60%	1.25%	22:16	0.995	0.736

Again, it is clear that in this subset that there are no statistically significant results for this subset. This signifies that although there were minute changes in the stock price in the days surrounding the SRI proposals, they do not differ greatly from the movement of each stock in the observation window and the change related to the SRI proposals is essentially zero. To echo the above interpretations of the results, Environmental SRI proposals

appear to have neither a positive nor a negative effect on the price of securities for the company receiving the proposal.

Below are the results for the final subset of data, Social SRI proposals:

Social SRI Proposals						
Market Model, Equally Weighted Index						
Days	N	Mean Cumulatve Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	31	1.21%	0.93%	22:9>	2.212*	1.458
(-10,+1)	31	0.72%	0.16%	16:15	0.196	0.028
(-10,+10)	31	0.06%	0.60%	16:15	0.573	0.6
Market Adjusted Returns, Equally Weighted Index						
Days	N	Mean Cumulatve Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	31	0.96%	1.03%	18:13	1.967*	1.31
(-10,+1)	31	-0.12%	-0.24%	17:14	-0.294	0.204
(-10,+10)	31	-1.21%	-0.13%	15:16	-0.114	0.774
Comparison Period Mean Adjusted Returns						
Days	N	Mean Cumulatve Abnormal Return	Precision Weighted CAAR	Positive:Negative	StdCsect Z	Rank Test Z
(-1,+1)	31	0.82%	0.71%	19:12	1.211	0.726
(-10,+1)	31	-0.34%	-1.35%	14:17	-1.104	-1.184
(-10,+10)	31	-0.66%	-0.75%	14:17	-0.52	-0.394

As indicated by the "*", there are two statistically significant results from the testing on Social SRI proposals. The Standard C Section Z test for both the Market Model, Equally Weighted Index and Market Adjusted Returns, Equally Weighted Index found results that were positive and statistically significant. It is probable that the results for the Comparison Period Mean Adjusted Returns were not significant because this form of testing removes outliers that may skew the results of small data sets. This means that there were positive changes in the stock prices from one day before the Social SRI

proposals to one day after the Social SRI proposals that differed so greatly from the movement of those stock prices during the 200 day observation window that they cannot be explained as normal price movement. This proves that there is positive correlation between Social SRI proposals and stock price growth. Given this correlation, further research was conducted to attempt to explain this positive correlation. It was hypothesized that Social SRI proposals had a higher rate of gaining majority votes and had a greater effect on management decision making, thus improving stock prices. However, this was not found to be the case. Below are the results of the mean and median votes for all SRI proposals and each subset of SRI proposals.

Votes for shares outstanding	
Votes for SRI proposals	
Mean	23.86%
Median	23.05%
Votes for Social SRI proposals	
Mean	6.14%
Median	5.58%

Votes for Corporate SRI proposals	
Mean	26.19%
Median	24.84%
Votes for Environmental SRI proposals	
Mean	11.05%
Median	6.24%

As the results clearly show, Social SRI proposals receive very little votes, in fact, the fewest mean and median votes, for of any SRI proposals. A subsequent hypothesis is that the market believes that shareholders and management will respond positively to Social SRI proposals and signals for an increase in that company's stock price despite a negative response by shareholders to the proposal. This could explain the increase in the company's stock price regardless of the outcome in voting for or against the shareholder proposal. Because I found the only significant increase in stock price to be for one day after the proposal, I presume that investors are responding only to the proposal and not to the passing of the proposal. As I will discuss in the Areas of Further Research section below, more testing will need to occur to determine the cause of this anomaly.

Conclusion

This article studies the effects of socially responsible investment proposals submitted by labor unions on the stock prices of the companies receiving these proposals. The sample is limited to only proposals that were submitted by labor unions and that contain SRI themes. Data was compiled of stock prices corresponding to companies that received these SRI proposals, ranging from 211 days before the proposal date of each SRI proposal to 10 days after the proposal date. Testing was then completed to determine if movement of a stock price after the proposal date was statistically significant compared to a 200 day observation window before each SRI proposal. This study finds that there is no correlation between stock price of a company and overall SRI proposals, Corporate SRI proposals, and Environmental SRI proposals. While this first appears as insignificant or meaningless, the results could have much larger implications. Shareholders can understand these results to show that a SRI proposal submitted by a labor union will have no effect, positive or negative, on the value of the shares of that company. This frees shareholders to then vote on the proposal, without bias of how it will influence their individual wealth. There is, however, strong positive correlation between Social SRI proposals and stock prices. From this I can infer that labor unions benefit the entire corporation and all shareholders when submitting Social SRI proposals. As stated earlier, when labor unions increase the

profitability of the entire firm, and thereby benefit their member, they partake in win-win bargaining or value-added unionism.

Areas of Further Research

In an attempt to explain why Social SRI proposals had a positive effect on stock prices while Corporate, Environmental, and total SRI proposals did not, I hypothesized that it was the acceptance by other shareholders of Social SRI proposals that was due the credit. I then examined the percentage of votes for a SRI proposal by other shareholders to determine if this indeed was the cause. However, given the results, Social SRI proposals received the lowest amount of shareholder votes meaning that acceptance of the SRI proposals by other shareholders cannot be the cause of the positive effect Social SRI proposals have on stock prices. Perhaps, because the data shows only the stock price movement up to one day after the labor union proposal, investors are only responding to the proposal and not the result of voting by management. This would explain why there is no discernable correlation between votes for the shareholder proposal and an increase in the stock price of that company. This is an area where further research should be conducted to determine what differentiates Social SRI proposals from other subsets of SRI proposals.

An ensuing hypothesis is that the market believes that shareholders and management will respond positively to Social SRI proposals and signals for an increase in that company's stock price despite a negative response by shareholders to the proposal. In order to measure investors' reactions to the passing or failing of an SRI proposal by labor unions, data would need to be acquired on the day which voting on the proposal took place. Then, stock prices would be analyzed for the days following the voting date and organized into separate subsets by the passing or failing of each proposal. This would theoretically determine the effect of shareholder voting on SRI proposals by labor unions.

Also, the literature review section of this article includes research on the bond market and bond values of a company, as well as the relation of labor unions to these areas. Due to time constraints, no testing was done to determine the effects of SRI proposals submitted by Labor unions on a company's debt and debt value. This is another area where further research could be conducted.

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