HOW SHAREHOLDER PROPOSALS AFFECT WORKERS RIGHTS

A Master Thesis

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Abstract

Recently, there has been a trend of workers' rights gaining importance. This thesis finds that shareholder proposals are a way to affect workers' rights, using a hand-collected sample of 128 proposals in the period 2018-2021. More recent proposals that gain a higher percentage of votes in favour are found to have a higher chance of being implemented. Sponsor type is not found to impact the implementation of a proposal. This thesis to the literature on ESG and shareholder proposals the conclusion that shareholder proposals can be used to affect ESG outcomes for firms.

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1. Introduction

Lately, more and more companies have seen their shareholders become concerned with the rights and health of the people they employ. For example, Scott (2023) describes that multiple major companies have seen shareholder proposals on workers' rights filed. This article sees this trend as a response to these companies' past labour and workers' rights violations, recent layoffs and attempts to prevent unionization. This is illustrated by the case of Apple (Apple faces workers' rights shareholder proposal, 2022): a coalition of investors has filed a proposal regarding the company's approach to workers' rights. The investors urge Apple to commission a third party to investigate how well Apple adheres to their commitment to workers freedom of association and collective bargaining rights. This proposal follows reports of Apple engaging in intimidation tactics such as retaliatory action when workers stand up for themselves.

Another example of a company receiving shareholder proposals on their workers situation is Starbucks (Russ, 2023). The shareholders behind this proposal urge Starbucks to have an independent review of its labour practices done. This proposal has been supported very vocally by the workers union. As in the case of Apple, the shareholder proposal follows bad press around the company's labour practices; Starbucks employees have filed more than 500 charges with the National Labor Relations Board. Starbucks's response to the proposal has been clear: the company confirmed it would conduct a human rights impact assessment, including certain international labour rights principles. Later, the company clarified that this assessment would be available in October of 2023, and that it would be conducted by independent third parties.

In these cases, there is (a coalition of) investor(s) filing a proposal. What motivates a shareholder to file a proposal? To understand at the concept of proposals from the shareholder point of view, look at the example of the New York State Common Retirement Fund (DiNapoli Seeks Increased Diversity at Pension Fund's Portfolio Companies, z.d.). This is a pension fund investing on behalf of more than one million government employees and retirees. The Fund places great emphasis on investing responsibly. For example, the Fund has filed proposals seeking to improve diversity, equity, and inclusion in the workplace with multiple companies. Most notable are proposals filed with Wells Fargo and Pinterest asking them to publicly report on their efforts to prevent harassment and discrimination, including among others the number of pending complaints.

This thesis will research shareholder proposals concerning workers' rights. To do this, firstly the current literature on the topic will be reviewed. Then, a hypothesis will be formed. Later, I will explain how I construct my sample and the method to do the data analysis will be outlined. Then the research will be conducted, and additional testing will be added. This will lead to a conclusion on which factors influence the effectiveness of shareholder proposals on workers' rights in what way.

2. Literature Review

2.1 Shareholder proposals as activism

Fundamentally, shareholder proposals are a form of shareholder activism (Gillian & Starks, 2007). Shareholder activism falls on a spectrum of choices that dissatisfied shareholders have. On one hand, dissatisfied shareholders can vote with their feet and sell their shares. On the other end of the spectrum, there is corporate control, most extremely takeovers and buyouts to facilitate changes. Somewhere less extreme on this spectrum, is investors negotiating with management to change the way things currently are. This is the purpose shareholder proposals serve.

Galvin (2019) explains that shareholders are not the only party looking to use shareholder proposals for their activism. The author describes how it has also become a tool for employees to try to influence their workplaces' policies. He explains that labour law as we now know it started with the National Labor Relations Act of 1935. Its purpose was to address the inequality of bargaining power that exists between employers and employees through collective bargain by employees about the terms and conditions of their employment. This essentially meant the rise of labour unions. In later times, it proved hard to implement further workers' rights laws, because the NRLA was ruled to bar all state and local efforts to instil further legislation. This led to legislation being very outdated compared to societal developments in labour. When laws would not provide solace, workers turned to less traditional ways to defend their positions. One of these ways was using shareholder proposals; the law permitting shareholders to submit proposals had been around for longer, but now employees explored it as one of the ways to better their employment situations.

2.2 The law

Shareholder proposals are a right of a shareholder as set by the SEC in Rule 14a-8 (*SEC.gov | SEC Proposes Amendments to Shareholder Proposal Rule*, 2022). It allows shareholders owning a certain market value in the company's securities to recommend the board of directors to take a certain action. A proposal therefore clearly states the course of action a shareholder recommends the board to take.

2.3 Nonbinding means ineffective?

Shareholder proposals are non-binding (Levit & Malenko, 2011). This means that the company's board can make their own determination on whether to adopt (a part of) a proposal, regardless of the votes in favour of the proposal. This allows the board to make the decisions that are in the company's best interest.

Gantchev and Giannetti (2021) provide a reasoning why shareholder proposals are not binding. They see shareholder proposals as a democracy instrument in corporate governance. The authors describe that voting on shareholder proposals works similarly to elections in a country. Not every person voting in an election is an expert on the subject matter and not everyone has done all the research. Also, elections can be influenced by popular parties gaining traction, regardless of the quality of their views. Therefore, blindly accepting of the outcome of voting on shareholder proposals may lead to sub-optimal outcomes. Hence, it seems reasonable to limit the importance of voting outcomes.

This leads to another problem; namely the question if shareholder proposals then have any effect at all. Early literature (Black, 1990) answers this with a sound “no”. In his view, shareholder proposals are ineffective. This is not only because they are not binding, but also because it can be difficult for shareholders to get involved with the business they partially possess. There may be legal barriers that prevent shareholders from influencing the business the way they would want, or conflicts of interest may arise preventing the shareholder from effectively governing.

Levit and Malenko (2011) also question whether shareholder proposals are effective. They describe that shareholders will only submit a proposal when the benefits outweigh the costs. Therefore, they either need to own many shares or need to dramatically alter the status quo with their proposal to consider submitting one. Also, for regular shareholders the outcome depends on the percentage of shares owned by activist voters. Activist shareholders are shareholders that take a stand and loudly action in favour of a proposal. This is needed to “neutralize” the managers’ voice, which the authors describe is normally somewhat against a proposal. When these two factors cancel each other out, it matters which way the other shareholders vote.

As managers are ultimately deciding whether to implement a proposal, they need to be convinced to act. Normally, the authors describe, managers are somewhat against a proposal. Without these activists, therefore, the proposal does not stand a chance. The authors use these findings to explain why shareholder proposals may have low implementation rates.

2.4 More effective over time

Other studies reject the view of shareholder proposals being ineffective (Thomas & Kotter, 2007). The authors see more and more shareholder proposals being submitted and conclude that they are implemented at a higher rate than before.

Research by Ertimur, Ferri & Stubben (2010) corroborates this: their paper illustrates that boards are becoming increasingly concerned with shareholder proposals. The authors find that the likelihood of implementation of non-binding majority votes has increased between 1997 and 2004. Additional tests in this paper suggest that directors are incentivized to implement changes suggested by shareholder proposals. Directors may help their own careers as implementation is associated with approximately a one-fifth reduction in both the probability of director turnover and the probability of losing other directorships.

Renneboog and Szilagyi (2011) confirm that shareholder proposals can be effective. They find that, despite the non-binding nature of shareholder proposals, firms can no longer ignore proposals that win the majority vote. This is due to the reputational damage the firm would otherwise sustain. Filatotchev and Dotsenko (2015) compare the effectiveness of shareholder proposals to other ways of shareholder influence, such as public debate. This study finds that shareholder proposals are an effective tool, whereas sparking public debate may not help shareholders further their interests. This study also finds that the stock market responds positively to shareholder proposals being accepted because it leads abnormal earnings increasing.

2.5 Withdrawn proposals

It is important to note about shareholder proposals that withdrawn proposals may also be effective (Bauer, Moers & Viehs, 2015). The authors remark that a shareholder filing a proposal is trying to set about a change in the company. The proposal is merely a means to an end. A company that sees a proposal filed, may start talking to or negotiating with the involved shareholder(s). The company may want to avoid the proposal going to vote, for instance if the proposal is against manager's interest or reputation or if management thinks the proposal is not beneficial to the firm. Private negotiating may then be the best solution.

Flammer, Toffel and Viswanathan (2021) describe that these negotiations may lead to the proposal being (partially) implemented without a vote. This proposal may then have merely been a means to pressure the company into sitting down with the shareholder and making changes. If the negotiations don't yield results, a proposal can still go to vote.

Bauer, Moers and Viehs (2015) show that withdrawn proposals are at least as effective as voted-on proposals, indicating that shareholder proposals are effective in opening negotiations.

2.6 ESG: the concept

To understand the workers' rights factor of this thesis, it is important to start by understanding the broader concept and then narrowing down. ESG stands for Environmental, Social and Governance (#1 What is ESG?, z.d.). It means that a company is not only concerned with profit numbers, but also with its impact on the world around us. This impact is divided into 3 categories. First, there is environment. Falling under this pillar are things like greenhouse gas emissions, resource use and biodiversity disclosures. Secondly, there is social. Here, companies for example report on how they manage labour practices, liabilities regarding safety of products and controversial sourcing issues. Lastly, there is governance. Under this pillar are issues like shareholder rights, board diversity and executive compensation.

This ESG trend has gained traction, resulting in legislation, for example the CSRD: an EU directive requiring large companies to report on sustainability (Corporate sustainability reporting, z.d.). Friede, Busch and Bassen (2015) find evidence of this trend of increased ESG focus. The study attempts to provide a detailed review of studies on ESG. They find that financial markets are increasingly including environmental, social and governance performance in their investment decisions. This study concludes that increased ESG performance is associated with better financial performance. This makes for the expectation of ESG performance to continue to ameliorate as it appears to be a feasible strategy.

Closely linked to ESG is the concept of CSR (The Corporate Governance Institute, 2023). CSR stands for Corporate Social Responsibility. CSR, as ESG, focuses on the effect the company has on the world but is less quantifiable. It is usually self-regulated and has a lot of variation, making it more suitable as an internal way of driving awareness and communicating values inside the company than for outside reporting.

This thesis is part of the research on the broader ESG topic. Workers' rights are one of the examples that fall under the social pillar of ESG, whereas shareholder proposals and their workings fall under the governance pillar.

2.7 Shareholder proposals on ESG

Eding & Scholtens (2017) describe that many investors are getting more concerned with where their money goes. This is a phenomenon called Socially Responsible Investing (SRI). This means that investors are becoming more aware of the environmental, ethical, social, and governmental performance of the companies they invest in. The authors find that shareholders submit proposals to improve ESG/CSR in poorly performing companies. This finding is corroborated by Barnett, Dimitrov and Gao (2022). They investigate CSR shareholder proposals, finding that companies that stick out in their CSR performance (either positively or negatively) are more likely to be targeted.

David, Bloom and Hillman (2007) look at the relation between investor activism, managerial responsiveness, and corporate social performance. They question whether managements response to shareholder proposals is substantive or symbolic. This study finds that shareholder proposals on corporate social performance is often met with a symbolic response from management; the proposal is (partially) implemented before the planned vote, but in such a way that the business is not impacted. The study concludes that shareholder proposals do more harm than good to the firm's corporate social performance.

The study of Baloria, Klassen & Wiedman (2019) finds the contrary. The authors investigate shareholder proposals on the topic of environmental, social and governance disclosures, specifically the case of political spending. In this study, both proposals that were voted on and proposals that were withdrawn were included in the sample. The authors find that 20 percent of firms targeted by disclosure proposals begin disclosing in the subsequent year, therefore showing that shareholder proposals can be effective in influencing corporate policy. Dyck, Lins, Roth and Wagner (2019) also find that investors can affect corporate social responsibility. The authors describe that information regarding the environmental and social performance of firms is readily available for shareholders to use in their decisions. Using a quasi-natural experiment, the authors can conclude that institutional ownership drives changes in firm's E&S policies. Institutional investors are usually the "activist" shareholders, so they are the ones most expected to want to increase the firm's E&S score. Another party likely to want to influence a company's E&S score is investors that come from a cultural background that places more emphasis on environmental and social performance. The authors show that shareholders from these backgrounds are much more likely to submit E&S related proposals. Most importantly, the study finds that shareholders are unlikely to vote with their feet. This means that they will try to use their influence (through shareholder proposals) to elicit changes in company policy, instead of just selling their shares.

1.8 Workers rights

Compa (2008) describes the relation between labour laws and CSR. He recalls having been very sceptical of the effectiveness of CSR, calling it "public relations manoeuvres to pacify concerned consumers" in earlier years. But having seen companies successfully implement CSR policies, the author has changed his mind. He now describes CSR as one of three legs holding up a platform. This platform is a metaphor for advancing workers' rights. The other two, strong labour laws that are strongly enforced, and strong democratic trade unions, are also needed to keep the platform up. Combined with the other two, the upwards trend in CSR is described to advance the rights of many workers.

The study of Bar-Haim and Karassin (2018) does put more emphasis on some of the legs than on others. They develop a develop a multilevel model of responsibility towards employees. With this, they try to answer what brings about (ir)responsible behaviour in firms. The model shows that external sources (legislation, outside pressure) are the most important factors deciding a firm's CSR, whereas the organization itself seems less impactful.

Reinecke and Donaghey (2015) describe the interaction between labour unions and organizations mobilizing consumption power. For this they use the response to the collapse of a building housing several factories in Bangladesh. The authors describe that traditionally, research on the topic of workers' rights focused on labour unions, as they are the most obvious party standing up for workers. As globalization went on, the power of national labour unions declined. Therefore, other methods of standing up for workers' rights were needed. One of these methods, the authors describe, is consumption actors. Consumers of goods can be mobilized to put pressure on multinational corporations to behave better, for instance through a boycott. The study concludes that these forces can be combined to create coalitional power.

The papers cited in this paragraph describe a changed world situation; one wherein the traditional ways of protecting workers' rights are not as effective anymore. The search for new ways to influence the way companies treat their employees appears to be fully ongoing, and the introduction suggests that the ways described above are not all. Therefore, it is interesting to see how effective other ways of influencing workers' rights can be. The rest of this thesis thus focuses on shareholder proposals on workers' rights. Workers' rights in this thesis are defined as everything decided by the company that affects workers circumstances, such as compensation (in the broad sense), safety measures and educational possibilities.

3. Hypothesis development

Section 2.7 implies that shareholder proposals on ESG are effective. In the rest of this chapter, a specific hypothesis will be developed. The development of the hypothesis is explained as follows:

3.1 More recent means more votes in favour

The research of Levit and Malenko (2011) points to a time trend in shareholder proposals. The authors describe that shareholder proposals themselves have become more popular (as indicated by a higher number of submitted proposals) and that voting support has increased. The authors describe that, in the case of governance-related proposals in the US, the fraction receiving majority vote has increased from 10,5% in 1997 to more than 29% in 2004. This trend is also identified in research by Buchanan, Netter, and Yang (2010). The authors compare shareholder proposal effectiveness in the UK and the US from 2000 to 2006, based on all types of proposal subjects. They find that, in the US, the percentage of successful proposals starts at 12,9% in 2000, peaks at 25,3% in 2003 and ends at a level of 21,2% in 2006. Overall, the authors find a clear positive trend of shareholder proposals being more successful in more recent years. Successful in this case denoting that a proposal has gained enough votes to pass. An explanation for this phenomenon can be found in the study of Friede, Bush and Bassen (2015). The authors aggregate evidence from more than 2000 empirical studies about ESG and financial performance. They find that the number of studies on this relation has increased greatly over the years and that more recent studies find a more positive relation between ESG performance and financial performance. More studies finding this result implies it becoming more public knowledge. Investors therefore would in more recent years be more likely to expect voting in favour of an ESG proposal to be beneficial for firm performance and therefore their stock ownership. This may make more investors vote in favour of an ESG proposal. This implies that the time effect would also be present in the sample this thesis uses.

3.2 More votes in favour lead to higher implementation

Ertimur, Ferri and Stubben (2010) identify that boards have become more likely to implement the non-binding shareholder proposals and set out to find out why. This research was conducted on a sample of governance-related proposals between 1997 and 2004 and finds that shareholder pressure is the main driver of implementation. Ceteris paribus, a proposal supported by 70% of the votes cast is 45% more likely to be implemented than a proposal that was supported only by 55% of votes cast. The study of Ferri and Sandino (2009) supports this finding: shareholder proposals on financial reporting and compensations are more likely to be implemented when they receive more votes, all else equal.

An explanation as to why proposals gaining more votes get implemented more often may lie in the cost-benefit analysis managers make (Baloria et al, 2019). This study was conducted in the setting of proposals on political spending disclosures. More support for a proposal would increase manager's reputational costs of non-implementation, making it more costly for managers to ignore proposals that have a high approval rate under shareholders.

The fact that multiple studies in multiple niches find a positive relation between votes in favour and implementation, and the explanation also being applicable to the setting of this thesis, means that the prediction is that also in the case of proposals on workers' rights, more votes in favour will lead to a greater chance of being implemented.

3.3 The hypothesis itself

The study of Thomas and Cotter (2007) expressly links the previous 2 paragraphs. It finds that more recent proposals are more likely to gain majority vote and that the majority vote is more likely to lead to management implementation in more recent years. This implies an interaction between the two effects. It therefore does not make sense to develop a hypothesis using only one of the factors. Therefore, the hypothesis alludes to an interaction effect.

H: More recent proposals with more votes in favour have a higher chance of being implemented.

4. Methodology

4.1 Data collection

Shareholder proposal data was taken from the ISS database from WRDS. This database contains all shareholder proposals submitted to US firms. I chose to use only the years 2018-2021, as these are the most recent years where data is available. The use of recent data is important as the introduction suggests that this phenomenon is relatively new. Therefore, I elected not to use data from earlier years. 2022 was excluded, because implementation of 2022 proposals may not yet have gone into effect. Including 2022 data therefore would bias the implementation percentage downwards. Data on firm variables was also found through WRDS.

Information on implementation of proposals is not available via a central database. This data therefore had to be hand-collected. Important is to capture the actual, real-world implementation of a proposal. For this research, the question is not if a company says they will implement a proposal, but whether they actually do. This rationale leads to the way of collecting data: through trying to find the results of a proposal. Per proposal, the year, company, and contents are known. Examples of proposals are “report on racial justice” (submitted to Abbott, 2019) or “report on implementation of human rights policy” (submitted to GEO group, 2019). To see if a proposal was implemented, I searched for the actual reports. If, in the case of Abbott, I could find a racial justice report, this means the proposal was implemented. If I cannot find a report by searching google on 3 different search terms and clicking through the company website, this can mean two things. Either the report does not exist, in which case the proposal was not implemented, or the report does exist but is buried. If the report is buried, it does not do justice to the spirit of the proposal; namely to make public the information the proposal asks the company to report on. This also counts as non-implementation. Other situations in which a proposal is counted as not implemented are the case in which the same proposal is submitted again the year after, as it would not be resubmitted if it was implemented, and if reporting is deemed of insufficient quality (as judged by the researcher, introducing subjectivity into the research but keeping this thesis closer to its intent; namely capturing actual effects and not mock victories).

Important to note is that this way of thinking works under the assumption that companies are reluctant to implement shareholder proposals. This is suggested by theory (Gillian and Starks, 2007) and confirmed during the data collection. When looking at proxy statements (where companies publish the proposals to be voted on), companies are also allowed to recommend the shareholders vote for or against a certain proposal. I have yet to encounter a company urging its shareholders to vote for a proposal.

This data-collection leads to a total of 3596 proposals submitted to US companies in the years 2018-2021 on all topics. In these 3596 proposals are included proposals that were rejected by the SEC (for various reasons; for example, being against the law or pertaining to the day-to-day of a company), proposals that were withdrawn by shareholders and proposals that came to a vote. Although the literature review (Flammer et al., 2021) suggests that excluding withdrawn proposals will underestimate the effectiveness of shareholder proposals, only voted-on proposals will be considered. This is because the aim of this thesis is to map the changing time trend in shareholder proposals. Prior literature (Friede et at., 2015) also suggests that there is a larger ESG trend going on around the world. Therefore, it is important to also consider the votes of the shareholders. This is to be able to analyse if the time trend also makes shareholders more inclined to vote for a shareholder proposal on workers' rights. Therefore, I elected to move forward with only the proposals that came to a final vote. Then, 1794 proposals remained. These proposals were not all on the topic of workers' rights. Eliminating proposals on different topics leads to a sample of 143 proposals, of which 128 remain where all control variables are available. Descriptive statistics of this sample are in table 1.

Table 1: Descriptive Statistics

Statistic	Minimum	Q1	Mean	Q3	Maximum	St. Dev.
Year	2018	2019	2019.74	2021	2021	1.00
Later_Year	0.00	0.00	0.58	1.00	1.00	0.50
Percentage of votes for	0.47	12.80	29.11	38.67	95.29	19.84
Return on Assets	-0.09	0.08	0.15	0.20	0.61	0.11
Book-to-market ratio	0.01	0.10	0.33	0.48	1.53	0.31
Debt-to-capital ratio	0.00	0.26	0.41	0.53	0.98	0.23
Implementation	0.00	0.00	0.39	1.00	1.00	0.49

Notes: for all variables, N=128. Rounded to 2 decimal places.

4.2 Research setup

The dependent variable in this design will be a dummy variable, 1 for an implemented proposal and 0 for a proposal not implemented.

The first independent variable is a dummy variable pertaining to time. The theory part of this proposal shows that both the attention for the topic of workers' rights and the impact of shareholder proposals have increased over time.

The second independent variable is the percentage of votes in favour of the proposal. This is consistent with setups found in another research, for example that of Baloria et al. (2019) and Ertimur et al. (2010). This is because a larger part of the shareholders being in favour of a proposal indicates greater pressure on the company to carry out the proposal.

The last independent variable is an interaction effect of year and votes in favour. These variables may very much be related to each other. The theory suggests that over the years, people have become more concerned with the topic of workers' rights. This would lead to time period and percentage of votes to have an intertwined effect, therefore warranting the use of the interaction term.

As implementation is a dummy variable, the use of an ordinary least squares regression is not possible. Therefore, I have elected to use a logistic regression using a binomial option.

The regression is:

(1) $\text{Implementation} = \beta 1 * \text{Later\_Year} + \beta 2 * \text{Votes} + \beta 3 * \text{Later\_Year} * \text{Votes} + \text{Controls}.$

Control variables pertain to the firm targeted. Controls used are in line with the research of Baloria et al. (2019) and Ertimur et al. (2010). I include the return on assets, the market capitalization, and the book-to-market ratio. This is because larger firms are less likely to concede because they have higher relative bargaining power, and better performing firms are more likely to concede because they have greater resources to devote to making changes.
The full variable definitions are included in appendix A.

5. Data analysis

Before starting to perform the regression analysis, it is important to first confirm that the independent variables and control variables are not perfectly correlated with each other. For this purpose, table 2 is included.

Table 2: correlation table

	Later_Year	Votes	ROA	Book-to-Market	Capital ratio
Later_Year	1.000	0.085	-0.168*	0.022	0.160*
Votes	0.085	1.000	-0.005	-0.141	0.208**
ROA	-0.168*	-0.005	1.000	-0.498***	-0.260***
Book-to-Market	0.022	-0.141	-0.498***	1.000	-0.006
Capital ratio	0.160*	0.208**	-0.260***	-0.006	1.000

Notes: table shows correlation between the independent variables and the control variables. Rounded to 3 digits. P values are denoted by stars: *p-value <0.1, **p-value < 0.05, ***p-value <0.01.

Since the correlation table shows a low correlation between the variables, especially between the independent variables, proceeding to the regression makes sense. Table 3 shows the regression results.

Table 3: results of a binomial logistic regression with implementation as the dependent variable

Variable	Coefficient
Intercept	0.025
	(0.915)
Later_Year	-1.355*
	(0.809)
Votes	0.006
	(0.020)
Later_Year * Votes	0.042*
	(0.025)
ROA	-2.451
	(2.217)
Book-to-Market	-0.448
	(0.748)
Capital ratio	-0.194
	(0.919)
Number of observations	128
Adjusted R^2	0.098

Notes: Later_Year, Votes and their interaction effect are the variables of interest. Rounded to 3 decimals. Standard errors are added between brackets. P values are denoted by stars: *p-value <0.1, **p-value < 0.05, ***p-value <0.01. Extended variable definitions are provided in Appendix A.

The interpretation of table 3 is as follows: first, it is important to realise which numbers will be interpreted. Only independent variables will be interpreted, the control variables will not be considered for interpretation. As a rule, only significant coefficients can be interpreted, as for these coefficients it is reasonable to assume that they are not in actuality 0 (which would mean no effect of this variable). Therefore, the interpretation of table 3 will focus on the coefficients of Later_Year and of the interaction effect. Also, the R-squared will be interpreted.

The variable Later_Year needs to be interpreted with caution. As the interaction between this variable and the Votes is significant, this means that the effect of the Later_Year variable partially depends on the percentage of votes in favour of a proposal. About the Later_Year variable itself, therefore, not much can be stated. The interpretation of this variable will stay limited to its sign and significance: if a proposal was submitted in 2020 or 2021 ceteris paribus, the chance of it being implemented is lower than when the proposal was submitted in 2018 or 2019. This contradicts the theory, which hypothesised that proposals that were submitted more recently automatically have a higher chance of being implemented. A possible explanation for this finding is COVID: in this sample, the most recent years were during COVID. It is possible that during these years companies had less resources to dedicate to advancing workers' rights than in the years before, leading to a lower implementation rate. The coefficient is significant at the 10% level, meaning that the probability of unjustly rejecting a null hypothesis of no effect of this variable is below 10%.

The most important variable in Model 1 (as depicted in table 3) is the interaction between Later_Year and Votes. It is significant at the 10% level, which means that the risk of concluding that this variable has an effect when in reality there is no effect is below 10%. In terms of this thesis, the risk of concluding that the interaction between Later_Year and Votes influences the chance of a proposal being implemented when in reality it has no effect on the chance of a proposal being implemented is below 10%. The coefficient is positive, which means that in 2020 and 2021, a higher percentage of support for a proposal has a bigger positive effect on the chance of a proposal being implemented than in 2018 and 2019, all else equal. This is because for Later_Year = 0, the interaction effect will drop out of the model. The magnitude of the interaction effect is harder to interpret, as the dependent variable is not continuous but binary. The odds ratio for the interaction effect is 1.042. An odds ratio normally means that a step increase in the independent variable leads to the odds of implementation will change by 1.042-fold. As this independent variable consists of a combination of 2 independent variables, a step increase can come about multiple ways. The main takeaway of the odds ratio therefore is that the economic effect of the interaction effect is quite small.

The R-squared must be regarded as follows: this model (the combination of independent and control variables) explains 9,8% of all variances in the dependent variable, which is if a proposal is implemented or not. This is not a very high explanatory power. Important is to note that the R-squared that is reported is the adjusted R-squared. This means that this number corrects for the inevitable effect that adding another variable adds explanatory power, regardless of the actual value of the added variable. This means that a model where another variable is added will not automatically lead to higher explanatory power. I, however, have decided to introduce a second model with an added variable in the next chapter. Explanation for this decision can be found in the next chapter as well.

6. Additional analysis

In this chapter, I will introduce a second model. The aim of this is to be able to dive deeper into the determinants of the effectiveness of shareholder proposals. A reason for this is that the explanatory power of Model 1 is not very large. Also, it is interesting to discover more factors that drive the effectiveness of shareholder proposals. Ertimur et al. (2010) found that the sponsor type affects the probability of the proposal being implemented. Therefore, this thesis will also include a test on this matter.

Following Ertimur et al. (2010), sponsors will be divided into their recorded types. As the ISS database records many distinct groups, I have elected to highlight a specific group, the SRI funds. SRI stands for socially responsible investing. Naturally, one of their goals is to invest in a socially responsible manner. Submitting shareholder proposals fits this strategy. Therefore, it is interesting to see if proposals from this group have a similar, higher, or lower implementation rate than proposals from other groups. Other groups are, for example, unions, religious groups, public pensions, and individuals.

For this test, the same sample will be used as for the original test of Model 1. Of these 128 proposals, 40 are sponsored by SRI funds, and 88 are supported by other groups of shareholders. The sponsor type will be added to Model 1, leading to Model 2:

$$\text{(2) Implementation} = \beta 1 * \text{Later\_Year} + \beta 2 * \text{Votes} + \beta 3 * \text{Later\_Year} * \text{Votes} + \beta 4 * \text{SRI fund} + \text{Controls.}$$

The results of Model 2 can be found in table 4. The interpretation of table 4 follows below:

Although only significant can be interpreted, it is important to devote attention to the coefficient of SRI, which is what sets apart Model 2 from Model 1. The coefficient for SRI in this model is not significant. This means that cannot be said that workers' rights proposals supported by SRI groups have a different chance of being implemented than workers' rights proposals supported by other groups. Ergo, the conclusion of Ertimur et al. (2010) that supporter type matters for the implementation rate cannot be supported by this thesis.

Then, the only significant coefficient in Model 2 can be interpreted: namely the interaction effect between Later_Year and Votes. It is significant at the 10% level, which means that the risk of concluding that the interaction between Later_Year and Votes influences the chance of a proposal being implemented when in reality it has no effect on the chance of a proposal being implemented is below 10%. The coefficient is positive, which means that in 2020 and 2021, a higher percentage of support for a proposal has a bigger positive effect on the chance of a proposal being implemented than in 2018 and 2019, all else equal. This is because for Later_Year = 0, the interaction effect will drop out of the model. The odds ratio for the interaction effect is 1.044. An odds ratio normally means that a step increase in the independent variable leads to the odds of implementation will change by 1.044-fold. As this independent variable consists of a combination of 2 independent variables, a step increase can come about multiple ways. The main takeaway of the odds ratio therefore is that the economic effect of the interaction effect is quite small. This confirms the findings of Model 1.

Lastly, the R-squared is 0.105, which means that this model of independent variables and control variables explains 10.5% of the variation in implementation. This is a bit higher compared to Model 1. As both are adjusted R-square models, these numbers can be compared and the conclusion that Model 2 is better at explaining the variance in outcomes can be drawn.

Table 4: results of a binomial logistic regression with implementation as the dependent variable

Variable	Coefficient
Intercept	-0.251
	(0.958)
Later_Year	-1.285
	(0.814)
Votes	0.006
	(0.020)
Later_Year * Votes	0.043*
	(0.025)
SRI	0.503
	(0.448)
ROA	-2.383
	(2.223)
Book-to-Market	-0.406
	(0.750)
Capital ratio	-0.095
	(0.924)
Number of observations	128
Adjusted R^2	0.105

Notes: Later_Year, Votes and their interaction effect are the variables of interest. Rounded to 3 decimals. Standard errors are added between brackets. P values are denoted by stars: *p-value <0.1, **p-value < 0.05, ***p-value <0.01. Extended variable definitions are provided in Appendix A.

7. Conclusion and discussion

This research has attempted to answer the question: Do more recent proposals with more votes in favour have a higher chance of being implemented?
The theory predicts that the answer to this question is yes, because of three reasons: first, there is an upwards trend in support for shareholder proposals, secondly there is an upwards trend in ESG (of which shareholder proposals are an example) importance and thirdly more votes in favour of a proposal leads to a higher chance of being implemented.
The simple empirical answer to this question is yes, more recent proposals with more votes in favour have a higher chance of being implemented. A caveat to this answer is that although this finding is significant, its economic magnitude is relatively small.
Additionally, this thesis sets out to see if the sponsor type matters for the implementation rate. SRI funds do not seem to have a different implementation rate for their workers' rights proposals than other sponsor groups, implying that it does not matter whether a proposal was submitted by a party that in its core has the value of caring about socially responsible investing.
The weaknesses of this research need to be noted: the sample is rather small. Although this has to do with the fact that shareholder proposals on workers' rights are relatively rare and the fact that implementation data needs to be hand-collected, it does take away from the persuasiveness of the results. Therefore, a recommendation for further research would be to include more years to form a bigger sample.
To conclude: when talking about shareholder proposals on the topic of workers' rights, more recent proposals with more votes in favour have a higher chance of being implemented. The sponsor type does not affect the effectiveness.
These findings add to the growing literature on shareholder proposals by shedding light on a previously unexplored niche; workers' rights. They also add to the growing understanding of the ESG/CSR trend currently going on in the world.

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Appendix A

Variable definitions

Variable	Definition
Implementation	A dummy variable that equals 1 if a proposal was implemented and 0 otherwise
Later_Year	A dummy variable that equals 0 if a proposal was submitted in 2018 or 2019 and 1 if submitted in 2020 or 2021
Votes	The percentage of votes in favour of a proposal
ROA	The return on assets of the company for the year in which the proposal was submitted
Book-to-market	The book to market ratio of the company on January 1st of the year the proposal was submitted
Capital ratio	The ratio of debt to capital of the company on January 1st of the year the proposal was submitted

Notes: the definitions of the variables used in the regression analysis