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Institutional Monitoring and Litigation Risk: Evidence from Employee Disputes

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Abstract: In this study, we investigate how institutional investors help mitigate business-related risks in a corporate environment. Using a large sample of employment disputes, litigations, and court cases, we find that institutional investors play a significant role in reducing employment litigation. We observe that firms with larger shares of institutional ownership have a lower incidence of employment lawsuits and that long-term institutional investors are more effective at decreasing employee mistreatment. Our results suggest that institutional investors can improve the employee work environment and help mitigate future employee litigation. The improvement of employee work conditions has been shown to increase a firm's value through increased employee output, reduced litigation, and direct and indirect costs. Our results shed light on the effectiveness of institutional monitoring on a firm's litigation risk.

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Keywords: Institutional Investors; Litigation; Labor Relations; Firm Value.

JEL classification: G30; G39; G23; K40

I. Introduction

Evidence suggests that work-related allegations pose a serious risk that managers must consider. Employee lawsuits in the USA have risen 400% in the past 20 years. In 2014, 88,000 discrimination charges were filed against US firms. By 2015, US firms faced a 12% chance of becoming a defendant in employment litigations, and almost 20% of those allegations ended in a settlement. The disputes resulted in defense and settlement costs averaging $125,000. Employment litigations can arise over workplace disputes involving disabilities[1], lost wages[2], unsafe working conditions[3], or even management actions.[4] The most common lawsuits involve discrimination, as well as employee benefits; wage/tipping policies, layoffs, and unions. Employee lawsuits bring into question the integrity of corporate practices and executives who have gained public trust.

When a firm is the target of a workplace allegation, it can affect the bond between firms and their stakeholders, including managers-shareholders, managers-board members, with the most impact likely felt between managers-employees. Similar to Faleye and Trahan (2011), we focus on the relationship between managers and employees. While Faleye and Trahan (2011) focused on the ability of labor-friendly practices to increase firm value, we focus on the power of poor labor practices to destroy value.

The argument in favor of labor-friendly practices is that a labor-friendly environment creates goodwill among a firm's employees. Labor-friendly practices may stimulate workforce loyalty, foster lower absenteeism, reduced turnover, and better productivity, all of which may ultimately lead to the probability of a better future for a firm. Therefore, all stakeholders should favor a workplace-friendly environment because it may create value and foster future growth. In the same manner that a workplace-friendly culture can positively impact the culture of a firm, workplace misconduct can be detrimental to a firm's culture. Workplace misconduct can happen when a firm's culture is

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[1] https://www.eeoc.gov/eeoc/newsroom/release/12-20-16a.cfm
[2] https://www.prnewswire.com/news-releases/new-class-action-lawsuit-alleges-ups-failed-to-deliver-on-employee-wages-300294983.html
[3] https://www.justice.gov/opa/pr/tyson-foods-pleads-guilty-and-agrees-pay-fine-osha-violation-led-worker-death
[4] https://globenewswire.com/news-release/2017/03/02/929994/0/en/Brown-Brown-Inc-Settles-Lawsuit-Against-Former-Employees-and-AssuredPartners.html

deteriorating. Common symptoms of workplace misconduct are frequent and sharp employment litigations.

Given the nature of lawsuits, legal action is likely to generate direct costs such as attorney fees, court fees, settlements and/or judgments, fines, penalties, prohibitions on commercial practices; and indirect costs, like CEO turnover and reputational loss, which may eventually affect a firm's value. Beyond the firm's value, stakeholder theory suggests that the relationship between corporations and their shareholders is an important issue. Frequent employee disputes can cause an employee to reevaluate their position. Firms may lose human capital as well as face stiff legal penalties. At its worst, employment disputes can hurt a firms relationship with its suppliers through reputation effects.

Stakeholder theory suggests that corporate governance is a balance between the interests of different stakeholder. A firm that faces frequent employment related disputes has a deteriorated connection between employees and management. However, the key to resolving these disputes and improving relationship might be from another stakeholder, the institutional investors. Literature suggests that institutional investors are effective in monitoring a firm's operations (Kang and Shivdasani, 1995; Franks and Mayer, 2001). Institutional ownership has been found to influence corporate policies; the share of institutional investors in the US has increased dramatically from 20% in the 1960s to more than 60% in 2011 (Celik and Isaksson, 2014). We suggest that institutional investors may reduce employee disputes via two channels. Edmans (2014) describes the two channels by which institutional investors affect managerial behavior as "voice" and "exit." This study focuses on the first suggested channel. We find evidence that firms with a significant proportion of institutional investors have a lower propensity to commit labor violations; we show evidence of this through the voice channel. The primary objective of our study is to examine if institutional ownership plays a role in reducing the incidence of employee lawsuits. The findings of this study could help both investors and financial practitioners in understanding the impact of the types of labor violations being committed, and whether institutional investors can reduce conflicts and protect minority interests through effective monitoring.

To examine how institutional ownership may reduce the incidence of employee allegations against corporations, we analyzed more than 25,000 employee lawsuits filed in US courts between 2000 and 2015. We find that firms with a more significant proportion of institutional investors are less likely to face enforcement actions in the US, and that a larger percentage of institutional ownership reduces the number of employee litigations filed against the firms. Our findings reveal that institutional investors can play a monitoring role in the corporate environment, which ultimately yields to better governance practices (Aggarwal et al., 2014; Wu et al., 2016).

We then examined whether institutional investors influence case characteristics. First, we showed that institutional investors increase the number of cases dismissed or withdrawn. We find that institutional ownership is negatively associated with the number of cases settled or closed. Our findings suggest that having institutional investors is associated with more favorable outcomes for the sample firms.

In addition to case results, we also examined case duration. We define case duration as the difference between case filing date[5] and case closing date (via settlement or court finding). Using survival analysis, we document that firms with higher institutional ownership terminate employee lawsuits faster. Our results suggest that institutional ownership is effective, not only in reducing litigation risk, but also in providing a better workplace environment.

Both the "voice" and "exit" channels can reduce legal actions. We studied several alternative explanations by exploring different types of institutions, and analyzing how investors affect managerial behavior and employee treatment. We document that pension funds and mutual funds with a longer investment horizon are more efficient in reducing employee disputes due to their active monitoring ability (Gaspar et al., 2005; Luong et al., 2017; Chen et al., 2007).

Investment horizon can also affect the monitoring ability of firms. We find that long-term investors reduce employee allegations and protect firm value (Malenko and Shen, 2016; Barbanov et al., 2008). In addition, results show that labor-related proposals, number of analysts, choice of audit firm, and

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[5] We define the case filing date as the date in which the case was filed with the Federal Court.

industry competition influence the number of employment lawsuits. Overall, the results demonstrate how institutional investors help firms reduce employee mistreatment.

This study provides two main contributions. First, we offer the first large-sample evidence on institutional ownership and corporate governance by examining employee lawsuits. We utilized a unique dataset containing employee lawsuits (25,000+ cases), which we combined with hand-collected data on workplace inspections, violations, and discrimination charges. Second, this study adds to the growing literature regarding institutional ownership and legal challenges in the workplace. The influence of institutional ownership on labor relations has been overlooked. To our knowledge, this is the first study that directly investigates the impact of institutional ownership on employee relations. Previous literature has examined the relationship between institutional ownership and corporate social responsibility practices (Coffey and Fryxell, 1991; Li and Zhang, 2010; Oh et al., 2011). Our study focuses on the legal challenges faced by corporations and the cost factor of litigation.

This paper proceeds as follows: Section 2 provides a summary of existing literature on lawsuits and firm performance. Section 3 describes our research hypothesis. Section 4 presents our data. In Section 5, we discuss our findings and conclude our work in Section 6.

II. Literature Review

Institutional investors are motivated to ensure that management reduces the cost of litigation. Lawsuits and other legal allegations cause firms to fail (Karpoff and Lott, 1993 & 1999; Phillips and Miller, 1996; Johnson et al., 1999 & 2000; Black et al., 2006). Lawsuits are associated with direct costs (legal fees) and indirect costs (loss of reputation, lower employee morale), which eventually lead to lower firm performance. The adverse effect of litigation and the way it harms a corporation are well documented (Bhagat and Romano, 2002; Viscusi and Hersch, 1990). The indirect cost of employment lawsuits, for example, could ruin a firm's reputation, lower employee morale, and increase the perceived uncertainty about a firm's prospects.

Edmans (2014) describes two channels by which institutional investors affect managerial behavior and reduce litigation, specifically, "voice" and "exit." The first channel is the "voice" channel. Because of the size of institutional ownership, an institutional owner has the ability to make suggestions on private

proposals, demand the attention of managers, or vote down managers. These mechanisms play an important role in punishing, dissuading, and discouraging a firm's management from practicing unwelcomed behavior. The second mechanism that institutional investors can use to prevent damaging managerial behavior is a "vote with your feet" strategy. This strategy is sometimes referred to as the "exit" strategy. This belief suggests that irritating or disturbing an institutional investor could cause the institutional investor to sell his/her shares and potentially destroy a firm's value.

Demsetz and Lehn (1985), Gaspar et al. (2005), and Chen et al. (2007) argue that the effective monitoring and long-term investment horizon of institutional investors increase firm value. Theoretical models highlight the channels between institutional owners and firm value creation. Several models link a firm's output and value to managerial monitoring. For example, Holmstrom (1989) models a manager's risk in relation to innovation output. Hart (1983), Bertrand and Mullainathan (2003), and Aghion et al. (2013) propose what is known as a "lazy-manager" hypothesis. The authors believe that if a manager chooses not to perform due to disinterest, an institutional investor may have the ability to force him to innovate with the use of shareholder's voice/rights listed earlier.

Empirical evidence supports the ability of institutional investors to encourage positive, value-enhancing, managerial behavior. Institutional investors can avoid future litigations (Barabanov et al., 2008). Institutions are positively related to shareholder activism (Smith, 1996; McNulty and Nordberg, 2016), and they support more successful shareholder proposals than individuals (Gillian and Stark, 2000). In addition, institutional ownership can affect a firm's litigation risk (Talley, 2009; Cheng et al., 2010). Institutional investors can choose different monitoring vehicles during fraud cases (Pukthuanthong et al., 2017), which will, in turn, lower fraudulent activities (Wu et al., 2016; Aggarwal et al., 2014). Coffey and Fryxell (1991), Li and Zhang (2010), and Oh et al. (2011) show that institutional investors affect different aspects of corporate social responsibility.

Other examples include Kang et al. (2018), who provide support for institutional investors' ability to hold CEOs and managers accountable. Using a panel of foreign institutional investors, Luong et al. (2017) show that institutional investors have a positive, causal effect on firms' value. The authors argue that institutional investors prevent managers from diverting resources to ancillary projects or non-

value enhancing projects. More recently, Jiang et al. (2018) used a unique dataset of block holders in China. They find that firms with multiple large shareholders have greater investment efficiency as compared to firms with only one substantial shareholder. These findings support the superior monitoring ability of institutional over traditional investors.

Concerning litigation, institutional investors have been found to reduce litigation risk. Ajinkya et al. (2005) studied the relationship between institutional investors and management earnings forecasts. The authors find that firms with institutional investors are likelier to issue more timely, detailed, and accurate earnings forecasts, therefore reducing the probability of litigation over time. Weiss and Beckerman (1995) also studied the relationship between active institutional monitoring and class action security litigation. Their research suggests that institutional investors play an essential role in reducing the severity and frequency of class action litigation.

Because employees are valuable assets in a firm (Coff, 1997), we focus on labor lawsuits. Employee relations are essential and directly related to firm performance (Edmans, 2014; Faleye and Trahan, 2011). Despite the growing body of research into firm litigation and other institutional benefits, no prior studies have investigated the relationship between employment lawsuits and corporate governance practices. We fill this gap in the literature by empirically testing how and why institutional investors mitigate labor-related incidents and reduce future allegations.

III. Hypothesis and Methodology

Relevant literature indicates there are numerous channels by which institutional investors can affect managerial behavior. We argue that when corporate governance mechanisms are weak, it is easy for businesses to practice value-reducing labor practices. Primarily, institutions affect managerial behavior in one of two ways: by selling shares, known as the exit hypothesis, or by voicing their concerns to management, the voice hypothesis. By selling shares, an institutional investor can affect the stock price, thereby putting pressure on management to reform. The threat of a significant institution monitoring through exit is an effective corporate governance mechanism (Admati and Pfeiderer, 2009; Edmands, 2010). Evidence shows that the use of exit channel is widespread (Parrino et al., 2003).

Abundant literature is also dedicated to investigating the voice channel of institutional investors. Institutional investors can voice their dissatisfaction with business practices (such as employee

treatment) in public or private. While investors may engage with managers in public, most seek to change the behavior of managers in private (Becht et al., 2009). Investors' voice channel is visibly demonstrated through the influence of institutional investors.

Poor employee treatment can have a negative impact on firm value through decreased employee output, litigation costs, or absenteeism, among others. Based on prior literature, we argue that institutional investors can motivate firms to reduce employment litigation. By doing so, institutional investors will ultimately increase firm value by reducing direct or indirect litigation costs and other benefits as a result of having a positive workplace. Therefore, the monitoring role of institutional investors can reduce labor-related incidents and other enforcement actions by using the exit and voice channels.

Previous researchers suggest that institutional investors are skilled financial entities who seek long-term financial gains from their investment decisions (Allen, 1993a and 1993b; Jarrell et al., 1985). Institutional investors deliberately evaluate companies before making investment decision (Aoki, 1984) and possess superior knowledge about the firm, compared to individual investors (Black, 1992).

For improved operating performance, we believe that institutional holding is a key factor in corporate governance due to its superior monitoring ability and unique voice (Aggarwal et al., 2011). Therefore, we expect that intensive monitoring by institutions encourages managers to act in a workplace-friendly manner and pressures them to exercise better employee treatment. The relationship between institutional holdings and lawsuit, if negative, indicates that institutional investors support positive work environment (monitoring effect).

H1: All other things being equal, institutional investors lower the incidence of labor disputes and enforcement actions amongst firms.

We employed institutional ownership (*Inst. Own%*) as the primary explanatory variable. *Inst. Own%* is computed as the percentage of shares owned by institutional investors out of a firm's total number of shares outstanding. Our dependent variable, *lawsuit*, is a count variable measured as the number of employment lawsuits filed against a firm in any respective year. Because numerous firm characteristics may contribute to firm litigation; we included several different firm-specific and governance-specific control variables. Our firm-specific control variables included firm-size (measured by the log of total assets), Tobin's Q (growth opportunities), book leverage, and tangibility. We also added ROA (Return

on assets) for the firm's profitability, Herfindahl Index for market competition, and firm age. Our governance-specific variables included board size, CEO duality, CEO compensation, takeover index, union membership growth, pension expenses, personal intensity, and property, plant and equipment. A detailed description of the individual variables used in this study can be found in Appendix A.

There are many labor laws at the state level that could affect our analysis. To address this heterogeneity, we included two groupings: state-year effects, and population-year effects. To increase the robustness of our results, we also measured employee disputes by utilizing an additional dataset of workplace safety inspections and violations, wage-related allegations (including civil penalties), benefit-related allegations, and discrimination lawsuits described in detail in Section 4.

In the first hypothesis, we measured the effect of institutional investors on employee treatment. The robustness of our evidence supports this relationship. Next, we investigated the impact of different types of investors on employee treatment. This hypothesis is unique in that many studies examine the impact of institutional investors on firm behavior. However, not all institutional investors are the same as they have different objectives.

As discussed previously, institutions can provide monitoring through an exit, or the threat of exit (Admati & Pfleiderer, 2009; Edmans, 2014; Harford et al., 2018). For many firms, the sale of large blocks of holdings by long-term institutional shareholders can indicate a decrease in share price, increasing the pressure on management. However, long-term investors hold shares when they observe long-term value-maximizing behavior. Because large holdings are observable, the sale (or non-sale) by long-term investors may reveal private information about managerial behavior. In addition, long-term institutional investors with large holdings and significant capital gains are uniquely positioned to take advantage of the voice channel.

Previous literature has shown that long-term institutional investors can effectively decrease managerial misbehavior. Harford et al. (2018) highlight the differences across institutional investors. The authors find that long-term investors are more effective at restraining managerial misconduct. However, the authors show the behavior to apply to earnings management and financial fraud, whereas we investigate the impact on employee mistreatment. Attig et al. (2012) and Gaspar et al. (2005) also

highlight the differences across institutional investors. For example, particular types of institutional investors may monitor differently due to differing motivations or investment horizons. To investigate these effects, we collected data on individual groups of institutional investors (Mutual Funds, Banks, Individuals, Corporate Pension Funds, and Insurance Companies).

The previous literature argues that for long-term investors, the costs of monitoring are lower and the benefits are higher. For these investors, the abilities to threaten exit and voice concerns to management are well documented (Edmans, 2014). Therefore, long-term institutional investors are positioned to play a unique role in the reduction of employee mistreatment.

H.2: Institutional investors' effect on managerial behavior differ by type of institutional investor.

We investigated institutional investors' horizon in two ways. First, we identified institutional investors by their classification (Mutual Funds, Banks, Individuals, Corporate Pension Funds, and Insurance Companies). The findings of Gaspar et al. (2005), Luong et al. (2017), Chen et al. (2007), Malenko and Shen (2016), and Barbanov et al. (2008) highlight the differences among the institutions' motivations for owning stocks. Institutions can have different priorities, so we expect the effect of institutional investors to vary by type. Second, we classified institutional investors by their churn rate. Churn rate is a measure of how investors turn over their portfolio. Investors that turn over their portfolio more frequently affect share price differently (Gaspar et al., 2005; Harford et al., 2018). Long-term institutional investors are positioned to provide greater leverage on management, and hence, are arguably more effective monitors for management.

 Prior literature suggests additional tests. For example, Aghion et al. (2013) investigated the effects of institutional investors in competitive industries. We followed a similar path by including a proxy for competition; the Lerner Index. We also investigated the impact of other governance monitoring mechanisms, such as the number of analysts following a firm or if a big four accounting firm audits the company.

Lawsuits may be subject to endogeneity due to litigation strategy or firm size. To alleviate this concern, we included alternative employee disputes gathered from an additional dataset of workplace safety

inspections and violations; wage and benefit related allegations; and discrimination lawsuits described in detail in Section 4. These cases serve as an additional check for unobserved heterogeneity associated with litigation. Ultimately, we find the effect of institutional investors on employee treatment to be robust to the type of employee complaint.

IV. Data Description

IV.I Firm Data

We used the S&P Capital IQ database to identify the publicly traded firms in our study. We also calculated firm-specific control variables from S&P Capital IQ. Our final sample included 2,923 different firms for the years 2000 to 2015, with 5,694 unique CEOs.

IV.II Employee Disputes

We hand-collected more than 25,000 employee disputes that received initial court hearings between 2000 and 2015. We used the National Labor Relations Board (NLRB) database to collect labor allegations. We matched case names with publicly traded firms in the Capital IQ database to identify the firms in our study.[6] We empirically tested how institutional ownership reduces workplace disputes and shapes corporate governance practices. Our objective is to show how institutional investors reduce not only lawsuits, but also other types of violations, inspections, and complaints.

IV.III Institutional Ownership

To measure institutional holdings, we used the percentage of institutional ownership invested in firm i in year t. Following Hartzell and Starks (2003), we calculated Ints_Own% as the ratio of total common stocks held by institutional investors to total shares outstanding by examining Edgar 13-F filings of the firms in our sample. For several types of institutional investors (banks, individuals; and mutual, corporate pension, education, and VC funds), we collected investor information and activism data (including labor-related proposals and voting outcomes) from Capital IQ.

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[6] For NLRB Litigation-Case data http://www.nlrb.gov/opengov/nlrb-data-datagov

[Insert Table 1 here]

Table 1 presents summary statistics of the variables (Institutional Ownership, Total Lawsuit, and Case Duration) used in this study. Total Lawsuit is defined as the total number of cases an individual firm experiences each year. Given the summary statistics provided in Table 1, a firm may experience as little as zero case and as many as 235 cases. Panel A shows that 15% of the firms in our sample were subjected to litigation. All summary statistics were calculated at the firm level. For example, dismissal is defined as the number of cases a firm has dismissed in a given year. On average, a firm has less than one case dismissed per year; however, the maximum number of cases dismissed per year for a firm is 76. Panel A shows that 15% of the firms in our sample were subjected to litigation. A complete description of all variables used in this study can be found in Appendix A.

In addition to lawsuits, we gathered unique hand-collected labor enforcement datasets from the US Department of Labor[7] which included a) Occupational Safety and Health Administration (OSHA) enforcement data (to identify workplace safety inspections and violations), b) Wage and Hour Compliance Action Data for wage-related disputes, including civil penalties, c) Employee Benefits and Security Enforcement Data (for benefit-related allegations that result in penalty assessments), and d) discrimination lawsuits from S&P Capital IQ lawsuit announcements' database.

The other variable is Case Duration, a count variable defined as the difference between case filing and case closing dates (via settlement or court finding). Case opening date is the date the case was filed with the Federal courts. Panel B of Table 1 documents the summary statistics of additional employee allegations in our sample. Panel C exhibits the case outcomes from litigation lawsuits. Panel D lists the summary statistics of control variables used in our study.

V. Empirical Results

V.I Institutional Ownership and Employee Lawsuits

We report the results of our initial investigation in Table 2. From Columns (1) to (6), our dependent variable is the log transformation of the total number of employment lawsuits. Column (1) shows results when we performed OLS with industry-year fixed effects. We find that an increasing percentage of institutional ownership reduces the number of employment lawsuits filed against a firm. Our results suggest that institutional ownership may play a role in lowering labor-related incidents. Based on the baseline results reported in Column (1), a one standard deviation increase in institutional ownership is associated with a nearly 7.5% decrease in litigations. In Column (2), we report the same relationship by extending our industry classification to 48.

[Insert Table 2 here]

Employee disputes may be driven by laws adopted at the state-level which may introduce unobserved heterogeneity. Therefore, to capture state-level variations, we performed state-fixed effects with the state of a firm defined as the location of its headquarters, as found in Capital IQ. Column (3) shows state-year fixed effects based on the location of a firm's headquarters. We calculated the population of the nearest metropolitan statistical area (MSA) for each firm. We then created ten binary variables based on the ten deciles of the population. Column (4) shows population-year fixed effects for each population decile in the sample. Consistent with our hypothesis, we find that institutional ownership is negatively related to employee litigation. Column (5) shows firm-year fixed effects. Column (6) reveals results of a logistic regression to measure the likelihood of employee lawsuits. Our dependent variable is equal to one if the firm is facing at least one trial and zero otherwise. Overall, we find that institutional ownership reduces the litigation risk faced by employers. This can happen through many channels, such as improved working conditions.

Our findings are consistent with hypothesis H1; institutional holding reduces litigations against a firm. Institutional investors can affect the number of employment cases in several ways. Institutional investors are more efficient in monitoring management than individual shareholders, which can in

turn reduce the likelihood of corporate wrong-doing and labor-related issues. Institutional investors are more likely to monitor firms and reduce the number of allegations by acting as a substitute for corporate governance mechanisms. In the next sections, we investigate further the channels by which institutional investors affect the workplace culture.

Much of the literature, including Gaspar et al. (2005), highlights differences across institutional investors. For example, respective types of institutional investors may monitor differently due to differing motivations or investment horizons. To investigate these effects, we collected data on individual groups of institutional investors (mutual funds, banks, individuals, corporate pension funds, and insurance companies). Using this data, we investigated the impact of different types of institutional investors on employee litigation. The results of our findings can be found in Table 3, Panels A, B and C.

Furthermore, each column shows results when we regressed the different percentages of institutional ownership on the total number of lawsuits. We find that both mutual and pension funds reduce the number of lawsuits a firm experiences as seen in Columns (1) and (4). Column (6) includes all types of institutional ownership in one regression. Our results match findings of Almazan et al. (2005), among others. We believe that these types of funds reduce the number of trials a firm experiences due to their active monitoring ability. Other types of institutions show insignificant results.

Panel B of Table 3 shows the effect of different types of institutions on litigation. For our dependent variable, we included both percentages held by institutional investors as well as the change in institutional ownership. This data allows us to determine if a change in institutional ownership affects the number of litigations. Again, in Columns (1) and (5), we find that ownership by mutual and pension funds reduces the level of litigations a firm experiences. Our results hold when we included all types of institutional ownership in Column (6).

We find that both pension and mutual funds negatively impact the number of litigations some firms experience. However, from the results of our study, the most meaningful economic effect on litigations comes from a change in pension funds. The benefit of different types of funds has been identified in the literature. Our results complement the findings of Wu et al. (2016), who find that

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institutional investors and political connections can help a firm evade corporate fraud. Our findings are most heavily connected to the findings of Barbanov et al. (2008), who find that institutional groups with high monitoring ability (independent investment advisors and mutual funds) are more proactive in their trading behavior and monitoring ability than other institutions (banks, insurance companies; and unclassified institutions such as endowments, foundations, and self-managed pension funds).

We also believe that long-term institutional investors will have a greater effect on a firm's litigation as compared to short-term institutional investors. Referring to Gaspar et al. (2005) and Luong et al. (2017), we calculated the institutional investors' horizon based on quarterly holdings. First, we computed investor horizon based on Luong et al. (2017). The authors investigated the impact of foreign ownership on firm innovation. We employed the authors' definition of investor horizon, that is, the sum of shares owned by all institutions that hold a stock for more than 1 year, as a percentage of the firm's total number of shares outstanding.

[Insert Table 3 here]

Using data on institutional investor holdings, we calculated investor turnover per Gaspar et al. (2005). This measure considers institutional investors who buy and sell their investments frequently as "short-term" investors, while those who hold their investments for a longer period of time are considered "long-term" investors. First, we calculated the investor churn rate, a measure of how frequently (infrequently) an investor changes his/her position. An investors' quarterly churn rate is calculated as follows.

$$CR_{i,t} = \frac{\Sigma_{j \in Q}|N_{j,i,t}P_{j,t} - N_{j,i,t-1}P_{j,t-1} - N_{j,i,t-1}\Delta P_{j,t}|}{\Sigma_{j \in Q}\dfrac{N_{j,i,t}P_{j,t} + N_{j,i,t-1}P_{j,t-1}}{2}} \tag{1}$$

Where $P_{j,t}$ and $N_{j,i,t}$ represent the price and the number of shares, respectively, of company j held by institutional investor i at quarter t. We then used the investor churn rate to compute investor turnover.

This measure denotes the horizon of the individual institutional investor. Investor turnover is computed by weighting the aggregated churn rate for the weight of investor i in the total percentage held by institutional investors at quarter t. The investor turnover of firm k is the weighted average of the total portfolio churn rates of its investors over four quarters. Where S is the set of shareholders in company k,

$$Investor\ Churn\ Rate\ for\ firm\ k = \ \Sigma_{i\in S}w_{k,i,t}(\frac{1}{4}\Sigma_{r=1}^{4}CR_{i,t-r+1}) \tag{2}$$

Different demographics or liquidity needs can cause institutional investors to have different portfolio horizons. Employee-defined contribution plans have a long-term orientation, while retail / open-ended mutual funds tend to be more short-term oriented because of frequent money inflows and outflows (Edelen, 1999). Short horizons could result from a firm's inability to continuously raise capital to implement long-term strategies (Shleifer & Vishny, 1997).

While there is no significant effect from short-term institutions, results show a significant negative effect on litigation from long-term institutional investors. Table 3, Panel C shows the results of our investigation of investor horizon and firm litigation. In the first column, we regressed investor turnover (Gaspar et al., 2005) on firm litigation. Here, we find a negative and significant relationship, implying that a firm with greater turnover negatively impacts firm litigation. The next two columns show investor turnover divided into short and long-term institutions (as defined by Luong et al., 2017). We find a significant negative effect on litigation from long-term institutional investors. Columns (5) and (6) shows investors subdivided into the bottom and top decile of investor horizon as calculated by Gaspar et al. (2005). We find that firms belonging to the bottom decile negatively impact the number of litigations a firm experiences. This implies that long-term institutions have a more vested interest in the monitoring of CEO behavior.

The result supports the view of Gaspar et al. (2005), along with other studies such as Chen et al. (2007), Malenko and Shen (2016), and Barbanov et al. (2008). The common theme underlying these studies is that long-term institutional investors provide value to a firm through long-term monitoring. When firms invest long-term, they tend to be more invested in the firms' long-term decisions.

V.II Institutional Ownership and Lawsuit Outcome

In this section, we investigate the case outcomes of employment lawsuits and determine if institutional ownership is associated with a favorable outcome. Table 4 shows the relationship between institutional holdings and litigation outcomes. In our sample, we categorized the cases into four: dismissal (refers to the log transformation of the total number of dismissed cases by judges for firm i in year t), withdrawal (defined as the log transformation of the total number of cases withdrawn for firm i in year t; the charging party initiates all withdrawn cases), settlement (defined as the log transformation of the total number of settled cases between the employee and the firm), and lastly, closure (refers to the log transformation of the total number of cases with a closing decision (final verdict)). For each case outcome, we counted the number of respective results at the firm level. We regressed each case outcome on institutional holdings and other control variables. Results are shown in Table 4.

[Insert Table 4 here]

The monitoring role of institutional investors is critical for shareholder protection (Shleifer and Vishny (1997). Because institutions have greater access to management than traditional shareholders, they can monitor more effectively and mitigate employment-related conflicts. In Table 4, we document how case outcomes can differ among firms with different institutional investor levels. Column (1) shows that institutional ownership is positively related to the number of dismissed cases after initial court hearings. Column (2) reveals that institutional ownership also increases the number of withdrawn cases. These results demonstrate that an increase in institutional ownership levels is related to more

cases being dismissed or withdrawn. Column (3) shows that institutional ownership lowers the number of lawsuits settled in our sample. In view of this, we can suggest that institutional ownership not only lowers the total number of lawsuits, but also reduces the potential monetary penalties (settlements). Similarly, Column (4) reveals that institutional ownership minimizes the number of completed cases with final decisions. Since those decisions can impose legal and monetary challenges, we believe that institutional investors protect shareholder wealth by reducing the number of allegations and litigation risk.

We then investigated the duration of lawsuits. Litigation that takes place over a long timeframe can lower firm value, due to high direct costs (attorney fees, court fees, settlements, and/or judgments, fines, penalties, prohibitions on commercial practices, etc.) and indirect costs (CEO turnover, reputational loss). The longer a case duration is, the greater it lowers firm value. We calculated the case duration for 27,798 unique lawsuits in our sample by taking the difference between "closure date" and "opening date" measured in days. We performed both cross-sectional OLS and Cox survival analyses. Results are shown in Table 5.

[Insert Table 5 here]

Table 5 reveals the relationship between institutional ownership and employee lawsuit duration in our sample. While results show that institutional ownership is related to favorable case outcomes (more dismissals and withdrawals), we also investigated whether these cases are resolved faster. Column (1) shows results from running OLS regression with the dependent variable, Duration, defined as the difference between case filing date and case closing date (via settlement or court finding). Results show that firms with greater institutional ownership have shorter case durations. In addition to OLS, we investigated case duration using the Cox proportional hazard model. A positive coefficient for institutional ownership indicates that a firm with more institutional holdings has a shorter case

duration. We find that institutional holdings reduce the case duration, suggesting that courts take a shorter time to reach decisions. Shorter case durations are less costly for firms because they are able to avoid both direct (attorney fees, court fees) and indirect costs (firm's reputation loss) associated with lawsuits. Overall, our findings indicate the positive effects of institutional ownership. Institutional investors not only help reduce labor-related incidents against the firm, but also enable a favorable outcome during the litigation process.

V.III Alternative Explanations and Institutional Channels

Previous sections investigated the relationship between institutional investors and employment litigation. Results show that institutional investors decrease the number of employment litigations a firm is subject to. In addition, we find that institutional investors are related to a lower number of other types of workplace disputes. In this section, we explore the channels by which institutional investors can impact management and reform the workplace. We conducted four groups of tests focused on the channels investors use to affect managerial behavior.

The four channels we investigated include shareholder proposals, market competition, monitoring pressures, and firm leverage. We first focused on shareholder activism because activist investors (including institutional investors) can heavily influence firm behavior. Krishnan et al. (2016) document that firm behavior as well as investment opportunities could be influenced by activist hedge funds; similarly, Pukthuanthong et al. (2017) find that activist institutional investors reduce litigation risk in terms of securities class actions. Proposals supported by institutional investors may gain substantially more support (Gillian and Starks, 2000). Additionally, Matsusaka et al. (2016) find that union pension fund activism is more pronounced around the time of labor contract negotiations.

Shareholder proposals are one way in which institutional investors can affect the behavior of management. By gathering enough support, institutional investors can use their "voice" to prevent

managerial behavior that may be detrimental to the firm, some of which may be related to employee treatment. However, not all proposals are ultimately approved. To be approved, a proposal must receive at least a majority support from other shareholders. Investors may engage with managers in public, however, they must seek to change the behavior of managers in private (Becht et al., 2009). While private exchanges between managers and investors are not observable, we can use shareholder proposals (an investor's voice) to measure governance outcomes.

We utilize all campaigns, in addition, to strictly "labor-related" cases. We create two new variables. The first variable is Ln(All Proposals), which refers to the log transformation of all shareholder proposals filed within the firm. The second variable is Ln(Labor Proposals), which relates to the log transformation of labor-related proposals (i.e., preventing discrimination, wage-retirement policy).

[Insert Table 6 here]

In Table 6, we regress total employee litigations on Ln(All Proposals), and we regress lawsuits on Ln(Labor Proposals). In column (1) of our findings, we are unable to find a relation between "All Proposals" and employment litigation. Our result in column (2) indicates that labor-related proposals lower the level of employment litigation. We document that each additional labor-related proposal reduces the number of employment-related conflicts.

We run similar tests by performing logistic regression in column (3) and (4). Comparable to the previous tests, column (3) shows no relation between "All Proposals" and the likelihood of a firm experiencing employment litigation. In column (4), we show that labor-related proposals lower the likelihood of employee disputes.

To examine how corporate governance practices influence future allegation risk, we performed a regression discontinuity design (RDD) analysis. Because the data has a natural break (fifty percent), a

typical way to investigate the impact of shareholder proposals on employee treatment is to use RDD analysis. We tested to see if successful shareholder proposals reduce future allegation risk. A proposal is successful if the vote outcome is 50% or more. Proposals with a score below 50% are not instituted.

[Insert Table 7 here]

Table 7, Panel A, documents the RDD results for shareholder proposals that are successful. We find that firms experience fewer employee allegations once the shareholder proposals, regarding labor issues, receive enough votes.

[Insert Figure 1 here]

Figure 1 illustrates the number of employee allegations before and after a shareholder proposal passes the 50% cutoff point. RDD results document that firms may face fewer lawsuits once the shareholder activism is successful. Figure 1 highlights a striking discontinuous drop, right at the 50% voting outcome, indicating that firms with winning proposals are much less likely to face future employee disputes, compared to firms that have failed to change governance practices. Overall, our RDD analysis documents that there is a noticeable negative relationship between the margin of victory and the number of employee lawsuits. Overall, the results of Table 7 are in support of Table 6. Following the passage of labor-friendly policies, firms face fewer allegations.

Next, we conducted an analysis similar to Aghion et al. (2013). In a highly competitive environment, a natural corporate governance mechanism exists, motivating firms to perform better. In a more competitive environment, if institutional investors are affecting the behavior of managers, we should observe a negative relationship between the interaction of institutions and market competition. We employ the Lerner index for product market competition. The results on Table 7, Panel C, show that the interaction between competition and institutional holdings is negative and significant.

Panel D shows the results of our investigation on the effectiveness of institutional investor monitoring using two proxies. We propose monitoring as being one of the primary paths that institutional investors use for increasing firm value. In this section, we used two proxies for efficient monitoring: the number of analysts following a firm, or whether a big four accounting firm audits the company. We counted the number of analysts following a firm, and we created an indicator variable equal to one if the firm is audited by a big four accounting firm.

The separation of ownership and control introduces agency problems. Stakeholders may introduce bonding or monitoring mechanisms to help mitigate the agency conflict Jensen and Meckling (1976). One such natural mechanism is the institutional investors. However, relevant literature has identified other mechanisms that could potentially prevent managerial conflict. In addition to the role of institutional investors, we investigated two additional mechanisms, analyst coverage and auditor ability.

External auditors can provide some level of assurance on the quality of publicly reported accounting information. A manager's ability to manipulate earnings or provide opaque or false information is decreased by increasing the quality of accounting information. For example, an auditor may better document when a manager manipulates earnings downwards. Increasing the quality and value of earnings disclosures, may dissuade managers from value-reducing activities, providing an additional check on managerial behavior (Jiang et al., 2018; Fan and Wong, 2005). Therefore, we studied the effect of Big 4 accounting firms in reducing value-decreasing managerial behavior.

Following Jiang et al. (2018), we expect analysts and big four accounting firms to effectively monitor the firm and lower the number of employee disputes. As expected, in Panel D, results show that the higher the number of analysts and big four accounting firms, the lower the number of firm litigations. However, when including an interaction between these variables and institutional holdings, no

significant effect was observed, inferring that sufficient monitoring by auditing firms or analysts already exist

Prior literature is clear that leverage plays a role in corporate decision making. In addition, leverage can have an effect on the ability of institutional investors. Aghion et al. (2013) argue that highly leveraged firms are under more pressure to reduce agency issues. Regardless of the level of leverage, institutional investors have the ability to affect managerial actions through the voice channel. However, when a firm has a high level of leverage, institutional investors that "exit" a firm can cause more damage. Therefore, the exit channel supports a stronger effect of institutional investors in highly leveraged firms. In contrast, the voice channel supports the effect of institutional investors in both highly leveraged and lowly leveraged firms.

We investigated the impact of institutional investors on litigation in both highly and lowly leveraged firms. We divided firms into highly and lowly leveraged based on the median leverage in year t. Results provide robust evidence for the voice of institutional investors. However, evidence for the exit channel of institutional investors has been sparing. Panel E shows results after regressing litigation on institutional ownership. Because of the voice channel, we expected litigation to be reduced in both highly and lowly leveraged firms. We observe this result in Table 6. However, in highly leveraged firms, we observe a larger effect (-0.034 Column (1), -0.299 Column (2)). We tested the two coefficients and find they are also statistically significant. This may be due to the "exit" channel. If a firm is highly leveraged, an exit by a primary investor will cause greater damage. Therefore, we expect a more significant effect for highly leveraged firms. In Columns (3) and (4) we find that litigation lowers both ROA and firm value, as measured by Tobin's Q. However, when including institutional ownership, the firm value is decreased by a lower amount.

V.IV Investor Self-Selection Concerns

The evidence in our study supports our research hypothesis; however, the relationship between institutional holdings and employee lawsuits could be endogenously determined. One significant concern is reverse causality or the possibility that firms with a lower number of employee litigation attract more institutional investors. We addressed this concern by employing different statistical tests. First, we performed an instrumental variable (IV) regression to estimate exogenous variations in institutional ownership (Bena et al., 2014). Second, we performed GMM estimation by using firms' internal instruments (Rong et al., 2017).

Our first instrument is inspired by Aghion et al. (2013), who exploit the correlation between institutional ownership and inclusion in the S&P 500 Index. A firms' inclusion in the S&P 500 can predict the amount of institutional ownership but is not related to employee lawsuits. The event is an exogenous shock to firms and satisfies inclusion and exclusion criteria of the instrumental variable approach (Aghion et al. 2013). We also explored alternative instrumental variables such as that suggested by Chi et al. (2017) and calculated stock alpha, beta, and turnover. Alpha is the excess return on individual stock relative to the market index. Beta is a measure of systematic risk for an individual stock, and turnover is the annual trading volume of an individual stock, normalized by the total shares outstanding.

We conducted the Heckman two-stage model. Some firms may not have any lawsuit or may not have any reported incident in the database. To control for the existence of an employee lawsuit, the dependent variable in the first stage is a binary variable (one if employees are suing the firm). The impact of institutional ownership on the number of lawsuits is determined in the second stage. We added Mills Ratio as a control variable in the second stage and tested the impact of institutional ownership on labor allegations.

Table 8 shows the results from endogeneity tests. In Column (1), our dependent variable is the percentage of institutional ownership and it is regressed on firms' inclusion to S&P 500 index. In the second stage of Column (2), we used predicted institutional ownership and document a negative and significant coefficient. All other things being equal, a greater presence of institutional investors is associated with lowered number of employee lawsuits. F-test of instruments statistics suggests that our instruments are valid, and Anderson-Rubin chi-square statistics rejects weak instrument hypothesis. Column (3) shows results when we employed alpha, beta, and turnover to predict institutional holding. The first stage instruments are significantly related to institutional holdings. Results in Column (4) shows that predicted institutional ownership is negatively and significantly associated with employee lawsuits. Our results are similar to Chi et al. (2017). Column (5) shows results when we performed GMM model. We employed Inst.Own%i,t-3 as well as its further lags as the instruments for Δ Inst.Own%i,t-1. Initially, we examined for second-order serial correlation in Δɛi,t using AR(2), where the null hypothesis is no serial correlation. The AR(2) results document no significant second-order autocorrelation. Therefore, our GMM test is assumed to be well specified. The results document that institutional ownership lowers employee lawsuits in our sample. Finally, we performed Heckman two-stage regression. In the first stage, our dependent variable is equal to one if the firm is being sued by employees, and zero otherwise. Then, we document the impact of institutional ownership on the number of employee lawsuits in the second state. Our results document the negative relationship between institutional investors and lawsuits where Mills Ratio remain insignificant. Our results indicate that we are less likely suffering from selection bias.

To further alleviate the concern related to self-selection, we conducted both dynamic estimation and changes-in-changes regression. This study will help illustrate how employee lawsuits are affected following an increase in firm institutional ownership. We regressed the change in the number of trials

on the change in institutional ownership. If institutional ownership leads to a reduction in employee lawsuits, we should observe a significant negative relationship. Results of this model are presented in Table 9.

[Insert Table 9 here]

Column (1) of Table 9 shows results after running a dynamic estimation. For the brevity of our results, we only report the coefficients of interest. We regressed the total number of employee lawsuits on institutional ownership at t+1, t, t-1, and t-2. We investigated the lead and lag of institutional ownership because we are interested in the role of institutions in mitigating future incidents. We document an insignificant coefficient for institutional ownership at t+1, which reduces causality concerns.

Column (2) shows results after using the change in the number of lawsuits between year t and t-1 as the dependent variable. Results indicate a negative relationship between increased institutional holdings and employee lawsuits. The negative coefficient implies that higher institutional ownership is associated with fewer labor violations in the following period. Column (3) shows results after regressing lawsuit on institutional ownership t-1 and the change in institutional ownership. Similarly, we find that an increase in institutional ownership reduces the number of lawsuits.

Column (4) shows results after measuring the causal direction between lawsuits and institutional holdings. We calculated the decline in lawsuits as the change in employee lawsuits between year t and t-1, where positive values are replaced by zero. Similarly, we estimated the decline in institutional ownership as the change in institutional holding between year t and t-1 where positive values are replaced by zero. Results shown on Column (4) document a positive relationship between a decline in institutional ownership and a decline in employee litigations. Column (5) shows results after calculating the year-over-year variation in employee lawsuits. We first calculated the changes in employee lawsuits

between year t and t-1, and then took the absolute value of the changes. Column (5) documents that more variation in institutional ownership leads to more variation in the number of employee lawsuits in our sample. We then examined the robustness and consistency of results by employing other proxies for employee litigations. We can only observe employee lawsuits that have been filed. There is a possibility that some firms might have committed labor violations that never reached the courts. To control for this, we used other violations that have similar focus on employment litigation. We collected labor-related violations from the US Department of Labor[8,] including data on Occupational Safety and Health Administration (OSHA) enforcement, Wage and Hour Compliance Action, Employee Benefits, and Security Enforcement. In addition, we also collected discrimination lawsuits from S&P Capital IQ lawsuit announcements and key developments. More information regarding the variables constructed can be found in Appendix A Panel B of Table 9 documents alternative explanations for institutional ownership and additional employee disputes. Results in Column (1) shows that institutional ownership lowers the total number of workplace safety inspections and violations, discrimination lawsuits, wage-related violations; and the total dollar amount of wage-related penalties due to wage-related violations. Overall, results shown on Panel B of Table 9 suggest that our findings are robust to alternative proxies of employee disputes.

VI. Conclusion

Employee lawsuits represent a significant concern for both investors and business owners. Our study analyzes a factor for mitigating the risk of employee lawsuits: the role of institutional investors. Institutional investors play an important role in monitoring and disciplining firms with weak corporate governance practices.

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[8] US Department of Labor Enforcement Data: https://enforcedata.dol.gov/homePage.php

We examined more than 25,000 employee lawsuits filed between 2000 and 2015 and find that firms with a larger proportion of institutional investors tend to have a lower incidence of employee disputes. We present substantial evidence that the presence of institutional investors is significantly associated with a reduction in employee disputes. Additionally, we find that larger institutional ownership reduces the likelihood of alternative enforcement actions. Our results are robust to different types of institutions (e.g., pensions and mutual funds) with different investment horizons (long-term investors vs. short-term investors).

We document that if institutional investors are present in a firm, more cases are dismissed by the judge or withdrawn by charging parties after a shorter duration. We suggest that institutional ownership can be effective in monitoring governance practices by mitigating labor-related incidents and providing favorable outcomes for the firms. Our results remain the same when we replace employee lawsuits with other employee disputes, including safety, health, and benefit concerns.

We then examined the underlying channels of how institutional ownership can shape corporate governance practices and reduce employee lawsuits. We find that institutional investors lower a firm's employment litigation through two channels, the exit channel, and the voice channel. Our results show that institutional investors decrease litigation through different mechanisms, such as shareholder proposals, choice of audit firm, analyst coverage, high and low market competition, and high and low leverage situations. Our results shed light on the effectiveness of institutional monitoring and suggest that better corporate governance practices can reduce the likelihood of corporate wrongdoing.

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Figures

Figure 1: RDD Analysis: Shareholder Voting Outcome and Employee Lawsuits
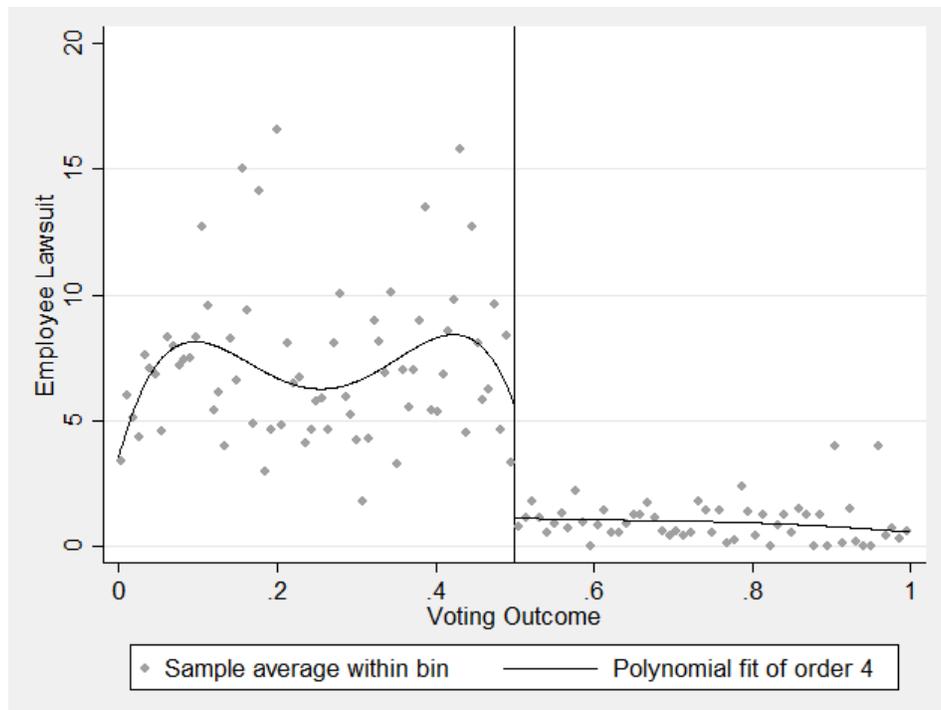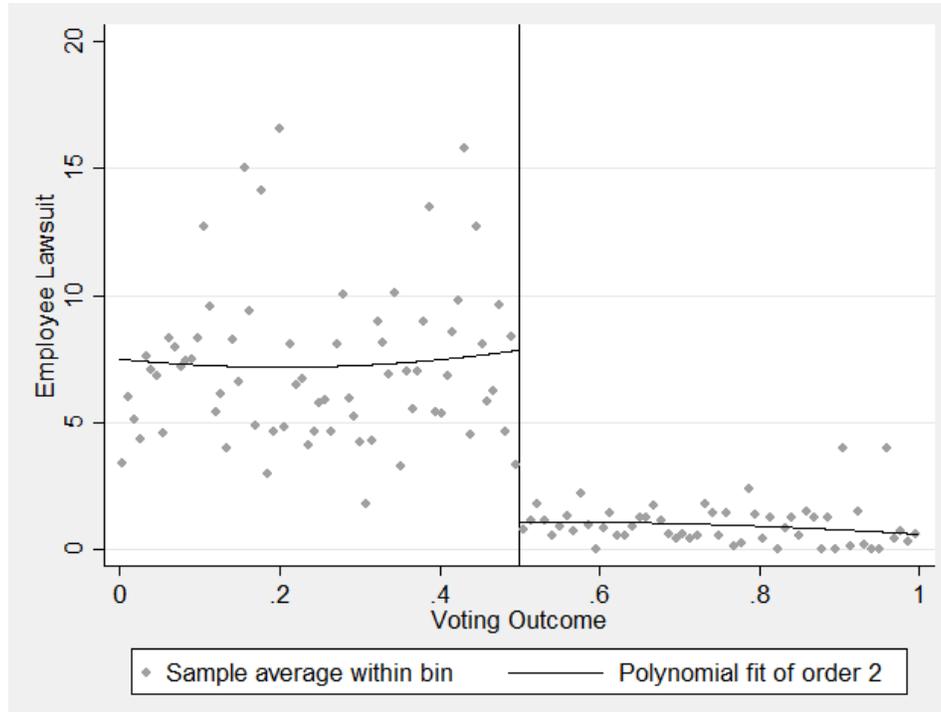
Table 1: Summary Statistics

Variables	Mean	Std. Dev	Min	Max
Panel A. Litigations				
Total Case	0.95	5.88	0.00	235.00
Lawsuit	0.15	0.35	0.00	1.00
Panel B. Inspections and Violations				
Case Duration	171.00	231.88	0.00	3,461.00
Dismissal	0.25	1.79	0.00	76.00
Withdrawal	0.59	3.98	0.00	154.00
Settlement	0.07	0.67	0.00	32.00
Closure	0.02	0.22	0.00	15.00
Total Inspections	1.06	4.74	0.00	192.00
Discrimination Lawsuit	0.08	0.53	0.00	22.00
Discrimination$$	32,011.00	1,445,677.00	0.00	181,000,000.00
Wage Related Case	1.07	44.41	0.00	4,399.00
Wage Related Penalty	3,485.45	199,069.50	0.00	33,300,000.00
Panel C. Institutional Ownership				
Inst. Own%	7.33	25.44	0.01	99.56
Mutual Funds	8.68	4.43	0.01	89.11
Investment	14.00	22.22	0.01	93.03
Banks	7.78	20.13	0.01	87.91
Pension	11.22	19.13	0.05	94.55
Insurance	4.22	6.13	0.02	69.89
CR ADD	0.20	0.12	0.00	2.14
Long-term	4.33	7.68	0.00	9.43
Short-Term	0.32	1.33	0.00	2.54
Lerner Index	0.33	0.02	0.01	1.00
Big 4	0.42	0.48	0.00	1.00
#Analyst	4.95	4.56	0.00	46.00
Panel D. Control Variables				
Log(Asset)	7.67	1.81	0.00	15.00
Book Leverage	0.24	0.90	0.00	12.94
ROA	0.03	0.52	-12.00	15.45
Tobin's Q	1.93	1.30	-0.99	7.35
Tangibility	0.25	0.23	0.00	0.98
HHI Index	0.06	0.06	0.01	1.00
Log(Firm Age)	3.05	0.71	0.00	4.17
Log(BoardSize)	5.77	1.29	1.00	14.00
Duality	0.63	0.48	0.00	1.00
Log(Compensation)	7.99	1.20	0.00	13.31
Takeover Index	0.16	0.09	0.01	0.81
Union Membership growth	0.04	0.68	-1.50	1.44
Pension expenses	0.12	0.01	0.00	0.37
Personal intensity	0.04	0.12	0.00	0.22
Property, plants and equip.	0.11	0.01	0.00	0.79

Table 1 exhibits the summary statistics at the firm level. Our sample consists of 2,923 unique firms from the Capital IQ database between 2000 and 2015. Panel A represents the litigation characteristics at the firm level. Panel B exhibits other employee-related inspections and violations. Panel C presents statistics relevant to case outcomes. Panel D represents the firms level control variables used in the study. Appendix A contains a detailed description of the variables used in the study.

Table 2: Institutional Ownership and Employee Lawsuits

Panel A.

Dependent Variable						
Sample	Ln(TotalLawsuit)$_{t+1}$					Prob(Lawsuit)$_{t+1}$
	(1)	(2)	(3)	(4)	(5)	(6)
Inst. Own%	-0.306	-0.290	-0.166	-0.142	-0.062	-0.354
	[0.001]***	[0.001]***	[0.001]***	[0.027]**	[0.043]**	[0.035]**
Log(Asset)	0.211	0.211	0.136	0.138	0.073	1.005
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	0.001	-0.001	0.018	0.020	0.002	0.284
	[0.940]	[0.968]	[0.508]	[0.483]	[0.832]	[0.001]***
ROA	-0.123	-0.136	-0.064	-0.061	0.004	0.037
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.882]	[0.001]***
Tobin's Q	0.009	0.008	0.010	0.010	0.001	-0.106
	[0.144]	[0.145]	[0.098]*	[0.099]	[0.641]	[0.001]***
Tangibility	0.452	0.369	0.576	0.541	0.313	1.642
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	0.611	1.302	1.236	1.266	0.234	1.528
	[0.136]	[0.001]***	[0.001]***	[0.001]***	[0.197]	[0.001]***
Log(Firm Age)	0.071	0.072	0.111	0.121	-0.096	0.327
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.001	-0.001	0.003	0.004	0.008	-0.016
	[0.859]	[0.853]	[0.694]	[0.638]	[0.042]**	[0.552]
Duality	0.013	0.027	0.018	0.021	0.027	0.118
	[0.623]	[0.292]	[0.504]	[0.441]	[0.059]*	[0.100]
Log(Compensation)	0.005	0.001	0.052	0.053	0.003	0.018
	[0.665]	[0.938]	[0.001]***	[0.001]***	[0.956]	[0.610]
Takeover Index	0.005	0.343	0.443	0.421	0.343	0.887
	[0.221]	[0.121]	[0.443]	[0.778]	[0.301]	[0.621]
Union Membership. growth	-0.012	-0.006	-0.009	-0.075	-0.051	-0.034
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-2.886	-0.172	0.020	0.010	0.005	0.029
	[0.551]	[0.137]	[0.615]	[0.885]	[0.609]	[0.430]
Personal intensity	0.006	0.004	3.216	0.279	0.071	0.024
	[0.021]**	[0.031]**	[0.001]***	[0.001]***	[0.011]**	[0.072]*
Property, plants and equip.	0.057	-0.001	-0.006	-0.076	0.098	0.020
	[0.611]	[0.213]	[0.223]	[0.727]	[0.681]	[0.219]
Year/Industry12	YES	NO	NO	NO	NO	NO
Year/Industry48	NO	YES	NO	NO	NO	YES
Year/State	NO	NO	YES	NO	NO	NO
Year/Population	NO	NO	NO	YES	NO	NO
Year/Firm	NO	NO	NO	NO	YES	NO
N	21,190	21,190	21,190	21,190	21,190	21,190
R²	21%	22%	18%	19%	23%	19%

Table 2 reports the multivariate regression results between institutional ownership and the total number of employee lawsuits controlling for firm-level variables. From column (1) to column (5), our dependent variable is log transformation of the total number of employee lawsuits. In column (1) and (2), we include industry fixed effects by FF12 and FF48 classification. In column (3), we include state and year fixed effects. In column (4), we include year and population fixed effects. In column (5), we include year and firm fixed effects. In column (6), our dependent variable is lawsuit, which is equal to one if a firm is facing at least one employee allegations and zero otherwise. We perform logistic regression with industry and year fixed effects. P-values are presented in brackets and all standard errors are clustered at the firm level. Appendix A contains a detailed description of the variables used in the study. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 3. Types of Institutional Ownership and Employee Lawsuits

Panel A. Institutional Ownership Types and Employee Lawsuits

Dependent Variable						
Sample	Ln(TotalLawsuit)$_{t+1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
Mutual Funds	-0.334					-0.119
	[0.001]***					[0.001]***
Investment		-0.290				0.221
		[0.491]				[0.954]
Banks			0.886			0.109
			[0.183]			[0.445]
Pension				-0.144		-0.334
				[0.001]***		[0.033]**
Insurance					-0.309	-0.221
					[0.421]	[0.554]
Log(Asset)	0.215	0.211	0.212	0.213	0.211	0.213
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	[0.452]	[0.445]	[0.466]	[0.478]	[0.498]	[0.478]
ROA	-0.135	-0.136	-0.137	-0.133	-0.134	-0.136
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.008	0.007	0.007	0.008	0.008	0.008
	[0.147]	[0.145]	[0.143]	[0.142]	[0.141]	[0.145]
Tangibility	0.369	0.367	0.367	0.366	0.365	0.376
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	1.302	1.302	1.305	1.301	1.304	1.303
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.072	0.071	0.071	0.073	0.071	0.070
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.002	-0.001	-0.002	-0.002	-0.002	-0.002
	[0.855]	[0.852]	[0.851]	[0.851]	[0.851]	[0.854]
Duality	0.026	0.027	0.026	0.026	0.026	0.027
	[0.291]	[0.293]	[0.293]	[0.295]	[0.293]	[0.290]
Log(Compensation)	0.001	0.001	0.001	0.001	0.001	0.001
	[0.918]	[0.918]	[0.921]	[0.933]	[0.936]	[0.936]
Takeover Index	0.342	0.343	0.342	0.341	0.344	0.339
	[0.125]	[0.120]	[0.121]	[0.122]	[0.123]	[0.127]
Union memb. growth	-0.006	-0.005	-0.004	-0.002	-0.002	-0.004
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-0.170	-0.172	-0.174	-0.172	-0.171	-0.179
	[0.130]	[0.131]	[0.131]	[0.133]	[0.130]	[0.138]
Personal intensity	0.004	0.004	0.003	0.003	0.003	0.003
	[0.032]**	[0.031]**	[0.032]**	[0.030]**	[0.034]**	[0.031]**
Property, plants and equip.	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	[0.211]	[0.212]	[0.213]	[0.209]	[0.212]	[0.213]
Year/Industry48	YES	YES	YES	YES	YES	YES
N	21,190	21,190	21,190	21,190	21,190	21,190
R²	20%	22%	20%	20%	21%	21%

Panel B. Institutional Ownership Types and Employee Lawsuits

| Dependent Variable | | | Ln(TotalLawsuit)$_{t+1}$ | | | |
| Sample | | | | | | |
	(1)	(2)	(3)	(4)	(5)	(6)
Mutual Funds	-0.377					-0.445
	[0.001]***					[0.031]**
ΔMutual Funds	-0.002					-0.112
	[0.044]**					[0.001]***
Investment		-0.122				0.422
		[0.491]				[0.787]
ΔInvestment		0.889				0.455
		[0.992]				[0.445]
Banks			0.771			0.331
			[0.133]			[0.143]
ΔBanks			0.112			0.314
			[0.067]*			[0.211]
Pension				-0.709		-0.676
				[0.001]***		[0.001]***
ΔPension				-0.799		-0.301
				[0.001]***		[0.001]***
Insurance					-0.332	0.112
					[0.221]	[0.443]
ΔInsurance					-0.221	-0.491
					[0.112]	[0.212]
Log(Asset)	0.219	0.222	0.221	0.223	0.223	0.221
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	[0.555]	[0.544]	[0.543]	[0.561]	[0.577]	[0.588]
ROA	-0.178	-0.188	-0.167	-0.155	-0.169	-0.153
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.007	0.008	0.007	0.007	0.008	0.008
	[0.177]	[0.141]	[0.141]	[0.149]	[0.136]	[0.189]
Tangibility	0.361	0.361	0.357	0.356	0.357	0.352
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	1.441	1.376	1.365	1.318	1.344	1.309
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.055	0.057	0.057	0.061	0.058	0.054
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002
	[0.841]	[0.664]	[0.554]	[0.433]	[0.141]	[0.331]
Duality	0.064	0.061	0.066	0.066	0.061	0.069
	[0.441]	[0.449]	[0.444]	[0.322]	[0.577]	[0.864]
Log(Compensation)	0.001	0.002	0.002	0.003	0.003	0.004
	[0.441]	[0.412]	[0.788]	[0.866]	[0.612]	[0.988]
Takeover Index	0.555	0.587	0.515	0.598	0.862	0.577
	[0.141]	[0.133]	[0.188]	[0.115]	[0.198]	[0.165]
Union memb. growth	-0.004	-0.003	-0.005	-0.005	-0.006	-0.006
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-0.165	-0.143	-0.566	-0.164	-0.552	-0.788
	[0.133]	[0.145]	[0.255]	[0.186]	[0.141]	[0.122]
Personal intensity	0.005	0.005	0.005	0.007	0.007	0.007
	[0.224]	[0.055]*	[0.022]**	[0.112]	[0.046]**	[0.076]*
Property, plants and equip.	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	[0.255]	[0.234]	[0.298]	[0.255]	[0.219]	[0.533]
Year/Industry48	YES	YES	YES	YES	YES	YES
N	19,332	19,332	19,332	19,332	19,332	19,332
R^2	17%	17%	17%	17%	17%	17%

Panel C. Institutional Ownership Types and Employee Lawsuits

Dependent Variable							
Sample				Ln(TotalLawsuit)$_{t+1}$			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Investor Horizon	-0.302						
	[0.041]**						
Median		-0.199					
		[0.033]**					
Long Term			-0.778				
			[0.001]***				
Short Term				-0.284			
				[0.667]			
Bottom Decile					-0.788		-0.108
					[0.001]***		[0.044]**
Top Decile						-0.032	0.339
						[0.992]	[0.112]
Log(Asset)	0.221	0.222	0.211	0.225	0.210	0.210	0.234
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.001	-0.002	-0.001	-0.002	-0.001	-0.002	-0.001
	[0.432]	[0.455]	[0.556]	[0.112]	[0.134]	[0.117]	[0.441]
ROA	-0.133	-0.134	-0.134	-0.137	-0.137	-0.136	-0.135
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.009	0.007	0.007	0.008	0.008	0.007	0.007
	[0.134]	[0.144]	[0.143]	[0.156]	[0.133]	[0.137]	[0.139]
Tangibility	0.344	0.345	0.368	0.361	0.367	0.367	0.369
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	1.344	1.345	1.388	1.309	1.307	1.307	1.301
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.076	0.057	0.056	0.077	0.080	0.071	0.078
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.001	-0.002	-0.002	-0.002	-0.003	-0.001	-0.001
	[0.551]	[0.544]	[0.433]	[0.566]	[0.598]	[0.677]	[0.462]
Duality	0.022	0.026	0.026	0.021	0.023	0.023	0.019
	[0.414]	[0.222]	[0.387]	[0.498]	[0.498]	[0.199]	[0.191]
Log(Compensation)	0.002	0.002	0.001	0.002	0.001	0.002	0.002
	[0.166]	[0.556]	[0.128]	[0.445]	[0.998]	[0.488]	[0.731]
Takeover Index	0.441	0.311	0.322	0.327	0.366	0.376	0.321
	[0.112]	[0.110]	[0.111]	[0.167]	[0.179]	[0.141]	[0.122]
Union memb. growth	-0.001	-0.003	-0.002	-0.003	-0.004	-0.001	-0.001
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-0.155	-0.166	-0.178	-0.181	-0.123	-0.144	-0.187
	[0.155]	[0.141]	[0.111]	[0.167]	[0.176]	[0.165]	[0.122]
Personal intensity	0.003	0.003	0.004	0.003	0.004	0.002	0.005
	[0.001]***	[0.023]**	[0.001]***	[0.001]***	[0.039]**	[0.025]**	[0.033]**
Property, plants and equip.	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	[0.244]	[0.221]	[0.218]	[0.234]	[0.266]	[0.287]	[0.281]
CONTROLS	YES	YES	YES	YES	YES	YES	YES
Year/Industry48	YES	YES	YES	YES	YES	YES	YES
N	21,190	21,190	21,190	21,190	21,190	21,190	21,190
R^2	19%	20%	19%	20%	20%	20%	21%

Table 3 reports the investigation of different types of institutional investors and employee lawsuits. In Panel A, we look at the impact of different types of institutional investors on employee lawsuits. Panel B investigates the change in holdings by different types of institutional investors on employee lawsuits. Panel C investigates the impact of investor horizon on the total number of lawsuits experienced by a firm. Column (1) our independent variable is the investor horizon variable as calculated by Gaspar et al. (2005). Columns (2) & (3) we break the investor turnover into short and long-term institutions as defined by Luong et al., (2017). In Columns (5) & (6) we subdivide investors into the bottom and top decile of investor horizon as calculated by Gaspar et al. (2005). All standard errors are clustered at the firm level. Appendix A contains a detailed description of the variables used in the study. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4. Institutional Ownership and Case Outcome

Panel A.

Dependent Variable				
Sample	Ln(Dismissal)t+1	Ln(Withdrawal)t+1	Ln(Settlement)t+1	Ln(Closure)t+1
	(1)	(2)	(3)	(4)
Inst. Own%	0.332	0.386	-0.534	-1.183
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Asset)	0.174	0.172	0.171	0.164
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.002	-0.001	0.001	0.101
	[0.891]	[0.950]	[0.994]	[0.075]*
ROA	-0.131	-0.127	-0.123	-0.141
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.008	0.007	0.006	0.008
	[0.120]	[0.160]	[0.197]	[0.107]
Tangibility	0.378	0.379	0.380	0.371
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	0.489	0.491	0.493	0.268
	[0.154]	[0.152]	[0.150]	[0.369]
Log(Firm Age)	0.067	0.066	0.065	0.059
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.003	-0.002	-0.002	-0.002
	[0.664]	[0.723]	[0.779]	[0.720]
Duality	0.011	0.011	0.010	0.010
	[0.625]	[0.639]	[0.656]	[0.662]
Log(Compensation)	-0.005	-0.004	-0.003	0.004
	[0.443]	[0.211]	[0.449]	[0.215]
Takeover Index	0.006	0.377	0.487	0.463
	[0.778]	[0.899]	[0.123]	[0.908]
Union memb. growth	-0.013	-0.007	-0.009	-0.082
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-3.175	-0.189	0.022	0.011
	[0.566]	[0.156]	[0.668]	[0.809]
Personal intensity	0.007	0.004	3.538	0.306
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Property, plants and equip.	0.063	-0.001	-0.007	-0.083
	[0.445]	[0.421]	[0.566]	[0.783]
Year/Industry48	YES	YES	YES	YES
N	21,190	21,190	21,190	21,190
R²	20%	20%	20%	20%

Table 4 reports the multivariate regression results between institutional ownership and case outcome controlling for firm-level variables. In column (1), our dependent variable is log transformation of the total number of dismissed cases. In column (2), our dependent variable is log transformation of the total number of withdrawn cases. In column (3), our dependent variable is log transformation of the total number of settlements. In column (4), our dependent variable is log transformation of the total number of cases classified as closure. All standard errors are clustered at the firm level. Appendix A contains a detailed description of the variables used in the study. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5. Institutional Ownership and Survival Analysis

Dependent Variable	OLS	Survival
Sample	Duration	Duration
	(1)	(2)
Inst. Own%	-0.334	0.323
	[0.001]***	[0.001]***
Log(Asset)	0.011	-0.023
	[0.128]	[0.218]
Book Leverage	-0.033	0.089
	[0.776]	[0.418]
ROA	0.145	-0.022
	[0.123]	[0.411]
Tobin's Q	0.221	-0.332
	[0.775]	[0.081]*
Tangibility	0.133	-0.198
	[0.001]***	[0.001]***
HHI Index	-1.682	0.223
	[0.021]**	[0.001]***
Log(Firm Age)	-0.088	0.090
	[0.039]**	[0.001]***
Log(BoardSize)	0.072	-0.061
	[0.001]***	[0.071]*
Duality	0.122	-0.455
	[0.001]***	[0.001]***
Log(Compensation)	-0.198	0.116
	[0.443]	[0.127]
Takeover Index	0.445	0.332
	[0.441]	[0.189]
Union memb. growth	0.089	0.045
	[0.001]***	[0.001]***
Pension expenses	1.222	0.667
	[0.784]	[0.543]
Personal intensity	0.077	0.112
	[0.081]*	[0.012]**
Property, plants and equip.	0.022	0.456
	[0.221]	[0.112]
Year/Industry48	YES	YES
N	17,798	17,798
R^2	7%	

Table 5 reports the relationship between institutional ownership and case duration. Our dependent variable is case duration measured as the difference between case closure date and case filing date. Panel A, we investigate the relationship using OLS regression. In Panel B, we use the same dependent variable and perform survival analysis. All standard errors are clustered at the firm level. Appendix A contains a detailed description of the variables used in the study. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 6. Shareholder Proposals and Employee Lawsuits

Panel A.

Dependent Variable				
Sample	Ln(TotalLawsuit)$_{t+1}$	Ln(TotalLawsuit)$_{t+1}$	Prob(TotalLawsuit)$_{t+1}$	Prob(TotalLawsuit)$_{t+1}$
	(1)	(2)	(3)	(4)
Ln(All Proposals)	0.778		0.095	
	[0.556]		[0.662]	
Ln(Labor Proposals)		-0.678		-0.499
		[0.001]***		[0.001]***
Log(Asset)	0.149	0.148	0.663	0.669
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.004	-0.004	0.007	0.008
	[0.621]	[0.778]	[0.334]	[0.345]
ROA	-0.067	-0.057	-0.011	-0.067
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.001	0.006	0.002	0.002
	[0.435]	[0.781]	[0.149]	[0.134]
Tangibility	0.257	0.253	0.190	0.199
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	0.966	0.963	0.863	0.876
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.049	0.056	0.188	0.176
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.001	-0.001	-0.001	-0.001
	[0.778]	[0.672]	[0.312]	[0.323]
Duality	0.014	0.019	0.006	0.007
	[0.556]	[0.598]	[0.566]	[0.655]
Log(Compensation)	0.001	0.001	0.001	0.001
	[0.722]	[0.734]	[0.655]	[0.742]
Year/Industry48	YES	YES	YES	YES
N	21,190	21,190	21,190	21,190
R²	15%	14%	26%	26%

Table 6 reports the relationship between litigation and shareholder proposals. Our dependent variable is case duration measured as the difference between case closure date and case filing date. In column (1) and (3) the variable of interest is Ln(All Proposals), which refers to the log transformation of all shareholder proposals filed within the firm. In column (2) and (4) Ln(Labor Proposals), which relates to the log transformation of labor-related proposals (i.e., preventing discrimination, wage-retirement policy).

Table 7. Alternative Explanations: RDD Analysis and Shareholder Proposals

Panel A.				
Estimate	-4.001	-3.114	-3.808	-5.694
	[0.970]***	[0.996]***	[1.091]***	[1.289]***
N Before/After	268/360	610/390	815/470	855/488
CONTROLS	YES	YES	YES	YES
Polynomial Degree	1	2	3	4
Panel B.	[0.25 , 0.75]	[0.35 , 0.65]	[0.15 , 0.85]	[0.25 , 0.75]
Estimate	-4.761	-6.428	-3.292	-4.024
	[0.656]***	[0.552]***	[0.828]***	[1.156]***
N Before/After	1262/846	1707/846	714/846	189/846
CONTROLS	YES	YES	YES	YES
Polynomial Degree	1	1	1	1

Panel C. Alternative Explanations : Monitoring Effect

Dependent Variable

Sample	Ln(TotalLawsuit)$_{t+1}$		
	(1)	(2)	(3)
Inst. Own% x Competition (1-Lerner index)	-0.445	-0.677	-0.102
	[0.001]***	[0.001]***	[0.001]***
Inst. Own%		-0.669	-0.443
		[0.044]**	[0.022]**
Competition (1-Lerner index)			-1.669
			[0.699]
Log(Asset)	0.342	0.215	0.275
	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.001	-0.001	-0.001
	[0.331]	[0.213]	[0.521]
ROA	-0.122	-0.341	-0.142
	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.005	0.005	0.004
	[0.225]	[0.212]	[0.541]
Tangibility	0.766	0.632	0.387
	[0.001]***	[0.001]***	[0.001]***
HHI Index	1.766	1.321	1.375
	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.331	0.221	0.654
	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.112	-0.345	-0.512
	[0.332]	[0.772]	[0.433]
Duality	0.553	0.521	0.533
	[0.433]	[0.244]	[0.643]
Log(Compensation)	0.022	0.032	0.045
	[0.521]	[0.433]	[0.531]
Takeover Index	0.766	0.412	0.331
	[0.542]	[0.432]	[0.476]
Union memb. growth	-0.004	-0.004	-0.001
	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-0.153	-0.136	-0.122
	[0.144]	[0.176]	[0.152]
Personal intensity	0.022	0.021	0.053
	[0.001]***	[0.023]**	[0.001]***
Property, plants and equip.	-0.012	-0.026	-0.010
	[0.983]	[0.623]	[0.7653]
CONTROLS	YES	YES	YES
Year/Industry48	YES	YES	YES
N	21,190	21,190	21,190
R^2	20%	19%	19%

Panel D. Alternative Explanations : Monitoring Effect				
Dependent Variable				
Sample		Ln(TotalLawsuit)$_{t+1}$		
	(1)	(2)	(3)	(4)
Big 4	-0.129	-0.667		
	[0.001]***	[0.001]***		
Big 4 * Inst. Own%		-1.877		
		[0.556]		
#Analyst			-0.443	
			[0.039]**	
#Analyst * Inst. Own%				0.002
				[0.887]
Log(Asset)	0.554	0.754	0.343	0.331
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.002	-0.002	-0.001	-0.001
	[0.663]	[0.863]	[0.225]	[0.567]
ROA	-0.544	-0.332	-0.765	-0.123
	[0.001]***	[0.001]***	[0.029]**	[0.001]***
Tobin's Q	0.004	0.005	0.006	0.004
	[0.125]	[0.542]	[0.221]	[0.222]
Tangibility	0.554	0.712	0.732	0.653
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	1.442	1.533	1.122	1.765
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.664	0.661	0.643	0.375
	[0.035]**	[0.001]***	[0.001]***	[0.041]**
Log(BoardSize)	-0.144	-0.631	-0.742	-0.773
	[0.333]	[0.432]	[0.542]	[0.542]
Duality	0.664	0.761	0.665	0.752
	[0.441]	[0.573]	[0.566]	[0.433]
Log(Compensation)	0.044	0.064	0.032	0.077
	[0.442]	[0.331]	[0.441]	[0.411]
Takeover Index	0.334	0.398	0.752	0.441
	[0.331]	[0.433]	[0.886]	[0.459]
Union memb. growth	-0.011	-0.004	-0.021	-0.004
	[0.013]**	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-0.445	-0.765	-0.155	-0.477
	[0.544]	[0.324]	[0.214]	[0.124]
Personal intensity	0.441	0.571	0.773	0.344
	[0.001]***	[0.045]**	[0.034]**	[0.001]***
Property, plants and equip.	-0.885	-0.788	-0.335	-0.543
	[0.431]	[0.343]	[0.313]	[0.353]
CONTROLS	YES	YES	YES	YES
Year/Industry48	YES	YES	YES	YES
N	21,190	21,190	21,190	21,190
R²	12%	16%	21%	22%

Panel E. Alternative Explanations : Leverage and Firm Value				
Dependent Variable				
Sample	Ln(TotalLawsuit)$_{t+1}$	Ln(TotalLawsuit)$_{t+1}$	ROA	Tobin's Q
	(1)	(2)	(3)	(4)
	High Leverage	Low Leverage		
Inst. Own%	-0.034	-0.299	0.443	0.556
	[0.011]**	[0.001]***	[0.020]**	[0.998]
Lawsuit			-0.544	-0.778
			[0.001]***	[0.039]**
Lawsuit * Inst. Own%			-0.012	-0.009
			[0.041]**	[0.056]*
Log(Asset)	0.331	1.553	0.552	0.788
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage			-0.033	-0.005
			[0.001]***	[0.323]
ROA	-0.212	-0.876		0.332
	[0.051]*	[0.001]***		[0.001]***
Tobin's Q	0.001	-0.004	0.046	
	[0.325]	[0.075]*	[0.075]*	
Tangibility	0.442	0.187	0.233	0.442
	[0.001]***	[0.047]**	[0.001]***	[0.001]***
HHI Index	1.661	2.442	-1.433	-1.409
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.552	0.690	0.441	0.985
	[0.078]*	[0.001]***	[0.035]**	[0.044]**
Log(BoardSize)	-0.451	0.885	-0.153	-0.198
	[0.039]**	[0.333]	[0.063]*	[0.543]
Duality	0.332	0.784	0.442	-0.662
	[0.553]	[0.223]	[0.842]	[0.451]
Log(Compensation)	0.977	0.478	-0.033	0.176
	[0.987]	[0.451]	[0.082]*	[0.487]
Takeover Index	0.442	0.877	-0.477	0.362
	[0.544]	[0.081]*	[0.551]	[0.784]
Union memb. growth	-0.087	-0.055	-0.056	-0.233
	[0.001]***	[0.001]***	[0.001]***	[0.039]**
Pension expenses	-0.562	-0.904	-0.552	-0.965
	[0.521]	[0.419]	[0.334]	[0.287]
Personal intensity	0.944	0.552	0.552	-0.753
	[0.001]***	[0.042]**	[0.001]***	[0.093]*
Property, plants and equip.	-0.331	0.904	0.442	0.841
	[0.332]	[0.455]	[0.331]	[0.781]
Inst. Own% High Leverage - Inst. Own% Low Leverage =0 Chi2 : 25.09 prob>chi2 : 0.01				
CONTROLS	YES	YES	YES	YES
Year/Industry48	YES	YES	YES	YES
N	9,877	11,313	21,190	21,190
R²	17%	18%	19%	18%

Table 7 reports the Regression Discontinuity Results for shareholder proposals. Our threshold cutoff is 50%. Panel A reports RDD results using local linear regression. Panel B reports the results of RDD with different bandwidths. In Panel C, we investigate the voice channel of institutional investors by examining the relationship between market competition, institutional ownership, and litigation. Lastly, Panel D investigates the impact of shareholder ligation if a firm is audited by a big 4 accounting firm or covered by many analysts. Panel E is an investigation of institutional ownership on litigation in high and low leverage firms. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 8. Institutional Ownership and Employee Lawsuits: Endogeneity Concerns

Panel A.						
Dependent Variable						
Sample	1st Stage	2nd Stage	1st Stage	2nd Stage	GMM	Heckman
	Inst. Own%	Ln(TotalLawsuit)	Inst. Own%	Ln(TotalLawsuit)	Ln(TotalLawsuit)	Ln(TotalLawsuit)
	(1)	(2)	(3)	(4)	(5)	(6)
Inst. Own%					-0.112	-0.301
					[0.029]**	[0.034]**
$\widehat{\text{Inst. Own}}$%		-0.778		-0.409		
		[0.014]**		[0.011]**		
S&P500	0.334					
	[0.021]**					
Alpha			1.667			
			[0.001]***			
Beta			-0.445			
			[0.039]**			
Turnover			-0.001			
			[0.001]***			
Mills Ratio						-0.667
						[0.445]
Log(Asset)	0.445	0.334	0.447	0.338	0.390	0.556
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	0.001	0.002	-0.002	-0.002	0.001	0.001
	[0.334]	[0.421]	[0.399]	[0.506]	[0.609]	[0.333]
ROA	0.556	-0.441	0.112	-0.778	-0.445	-0.661
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.009	0.008	0.010	0.012	0.011	0.012
	[0.221]	[0.667]	[0.117]	[0.664]	[0.722]	[0.309]
Tangibility	0.556	0.778	0.331	0.410	0.557	0.710
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	0.551	0.332	0.442	0.887	0.345	0.771
	[0.031]**	[0.041]**	[0.022]**	[0.051]*	[0.049]**	[0.012]**
Log(Firm Age)	1.443	0.446	0.669	0.190	0.441	0.699
	[0.001]***	[0.031]**	[0.089]*	[0.119]	[0.001]***	[0.058]*
Log(BoardSize)	-0.001	-0.001	-0.003	-0.004	-0.004	-0.005
	[0.331]	[0.409]	[0.551]	[0.409]	[0.131]	[0.092]*
Duality	-0.198	0.490	-0.788	0.177	0.112	0.092

	[0.056]*	[0.233]	[0.078]*	[0.554]	[0.118]	[0.499]
Log(Compensation)	-0.005	0.133	-0.004	0.033	0.112	0.127
	[0.093]*	[0.441]	[0.091]*	[0.553]	[0.166]	[0.178]
Takeover Index	0.442	0.112	0.178	0.554	0.189	0.753
	[0.147]	[0.122]	[0.454]	[0.418]	[0.544]	[0.791]
Union memb. growth	-0.221	-0.677	-0.711	-0.390	-0.517	-0.319
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-0.409	0.198	-0.414	0.112	0.465	0.778
	[0.442]	[0.166]	[0.390]	[0.677]	[0.639]	[0.669]
Personal intensity	0.033	0.012	0.221	0.662	0.209	0.188
	[0.001]***	[0.042]**	[0.001]***	[0.056]*	[0.067]*	[0.049]**
Property, plants and equip.	-0.007	-0.001	-0.006	-0.006	-0.006	-0.007
	[0.554]	[0.122]	[0.455]	[0.711]	[0.907]	[0.906]
F-test of instruments	15.440		43.109			
P-Value	0.000***		0.000***			
Anderson-Rubin Chi-Square		23.771		14.455		
P-Value		0.000***		0.000***		
P-value for AR(2) Test					0.55	
P-value for Hansen Test					0.12	
CONTROLS	YES	YES	YES	YES	YES	YES
Year/Industry48	YES	YES	YES	YES	YES	YES
N	21,190	21,190	21,190	21,190	21,190	21,190
R^2	15%	16%	16%	15%	15%	15%

Table 8 investigates the relationship between institutional ownership and other employee allegations through the use of several alternative measures. In Column 1, we predict institutional ownership by using firms' being added to S&P500 index as an instrument. In Column 2, we use predicted institutional ownership where our dependent variable is employee lawsuit. In Column 3, our instruments are stock alpha, beta, and turnover. In Column 4, we use predicted institutional ownership where our dependent variable is employee lawsuit. In Column 5, we perform GMM analysis. In Column (6), we control for Mills Lambda from Heckman selection test. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 9. Timing of Lawsuits and Other Allegations

Panel A.					
Dependent Variable					
Sample	Ln(TotalLawsuit)	Δ(TotalLawsuit)	Ln(TotalLawsuit)	Decline in Lawsuit	abs[ΔLawsuit]
	(1)	(2)	(3)	(4)	(5)
Inst. Own%$_{t+1}$	0.455				
	[0.677]				
Inst. Own%$_t$	-0.491				
	[0.001]***				
Inst. Own%$_{t-1}$	-0.309		-0.102		
	[0.001]***		[0.043]**		
Inst. Own%$_{t-2}$	-0.044				
	[0.075]**				
ΔInst. Own%		-0.445	-0.334		
		[0.001]***	[0.001]***		
Decline in Inst. Own%				0.009	
				[0.041]**	
abs[ΔInst. Own%]					-0.101
					[0.025]**
Log(Asset)	0.543	0.221	0.233	0.354	0.553
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.001	-0.005	-0.006	-0.001	-0.007
	[0.562]	[0.776]	[0.887]	[0.988]	[0.552]
ROA	-0.132	-0.131	-0.443	-0.777	-0.133
	[0.001]***	[0.044]**	[0.001]***	[0.012]**	[0.088]*
Tobin's Q	0.004	0.008	0.003	0.012	0.019
	[0.555]	[0.875]	[0.876]	[0.764]	[0.763]

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Tangibility	0.662	0.211	0.187	0.553	0.331
	[0.001]***	[0.001]***	[0.044]**	[0.120]	[0.001]***
HHI Index	1.776	1.854	1.543	1.754	1.322
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.112	0.456	0.311	0.866	0.566
	[0.001]***	[0.001]***	[0.022]**	[0.001]***	[0.001]***
Log(BoardSize)	-0.033	-0.221	-0.667	-0.065	-0.011
	[0.443]	[0.594]	[0.093]*	[0.996]	[0.548]
Duality	0.442	0.461	0.111	0.057	0.087
	[0.455]	[0.442]	[0.552]	[0.666]	[0.331]
Log(Compensation)	0.001	0.002	0.045	0.032	0.078
	[0.442]	[0.775]	[0.212]	[0.467]	[0.552]
Takeover Index	0.551	0.367	0.386	0.421	0.342
	[0.441]	[0.121]	[0.522]	[0.411]	[0.332]
Union memb. growth	-0.002	-0.003	-0.002	-0.002	-0.012
	[0.001]***	[0.047]**	[0.023]**	[0.001]***	[0.052]*
Pension expenses	-0.157	-0.121	-0.155	-0.321	-0.234
	[0.133]	[0.312]	[0.441]	[0.234]	[0.311]
Personal intensity	0.001	0.003	0.001	0.001	0.004
	[0.029]**	[0.001]***	[0.011]**	[0.001]***	[0.001]***
Property, plants and equip.	-0.021	-0.012	-0.029	-0.001	-0.003
	[0.663]	[0.553]	[0.221]	[0.452]	[0.321]
CONTROLS	YES	YES	YES	YES	YES
Year/Industry48	YES	YES	YES	YES	YES
N	19,443	20,885	21,332	21,766	21,766
R²	11%	12%	11%	6%	6%

Panel B. Other Allegations

Dependent Variable					
Sample	Log(Total Inspections)	Log(Discrimination Lawsuit)	Log(Discrimination$$)	Log(Wage Related Case)	Log(Wage Related Penalty)
	(1)	(2)	(3)	(4)	(5)
Inst. Own%	-0.556	-0.700	-0.334	-1.255	-0.307
	[0.001]***	[0.001]***	[0.001]***	[0.022]**	[0.019]**
Log(Asset)	0.222	0.212	0.244	0.219	0.234
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.001	-0.002	-0.002	-0.003	-0.001
	[0.221]	[0.352]	[0.562]	[0.675]	[0.661]
ROA	-0.166	-0.176	-0.175	-0.131	-0.139
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	0.001	0.002	0.004	0.005	0.001
	[0.553]	[0.221]	[0.988]	[0.532]	[0.331]
Tangibility	0.343	0.367	0.361	0.378	0.363
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
HHI Index	1.553	1.433	1.376	1.341	1.553
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(Firm Age)	0.112	0.076	0.012	0.076	0.078
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Log(BoardSize)	-0.001	-0.012	-0.031	-0.011	-0.002
	[0.822]	[0.123]	[0.773]	[0.831]	[0.856]
Duality	0.034	0.087	0.044	0.023	0.036
	[0.664]	[0.441]	[0.556]	[0.521]	[0.231]
Log(Compensation)	0.002	0.008	0.001	0.003	0.002

	(1)	(2)	(3)	(4)	(5)
	[0.788]	[0.331]	[0.341]	[0.531]	[0.337]
Takeover Index	0.366	0.388	0.544	0.346	0.332
	[0.165]	[0.161]	[0.112]	[0.197]	[0.188]
Union memb. growth	-0.012	-0.022	-0.026	-0.002	-0.039
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Pension expenses	-0.177	-0.422	-0.655	-0.312	-0.554
	[0.441]	[0.672]	[0.763]	[0.641]	[0.765]
Personal intensity	0.005	0.002	0.008	0.008	0.001
	[0.441]	[0.012]**	[0.211]	[0.556]	[0.098]*
Property, plants and equip.	-0.001	-0.001	-0.001	-0.001	-0.001
	[0.772]	[0.552]	[0.533]	[0.864]	[0.642]
CONTROLS	YES	YES	YES	YES	YES
Year/Industry48	YES	YES	YES	YES	YES
N	21,190	21,190	21,190	21,190	21,190
R^2	11%	13%	13%	13%	14%

Table 9 reports the relationship between institutional ownership and other employee allegations. In Panel A, we conduct changes in changes regressions. In column (1) & (3), our dependent variable is log transformation of the total number of lawsuits. In column (2), we use changes in the number of lawsuits between year t and t-1. In column (4), our dependent variable is the decline in lawsuits and is measured as changes in the number of lawsuits between year t and t-1 where positive values are replaced by zero. In column (5), we calculate the absolute value of the change in lawsuits between year t and t-1. In Panel B, we employ several other types of employee allegation that proxy for employee lawsuits. All standard errors are clustered at the firm level. Appendix A contains a detailed description of the variables used in the study. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Appendix A : Definition of Variables

Variables	Definition	Source
Panel A. Lawsuit Characteristics		
Total Case	Total number of labor related litigations in given year	NLRB
Lawsuit	Binary variable equal to one if firm had at least one labor related lawsuit, zero otherwise	NLRB
Log(TotalLawsuit)$_t$	Log transformation of the total number of lawsuit	NLRB
Dismissal	Total number of cases dismissed after initial court hearing	NLRB
Withdrawal	Total number of cases withdrawn by charging parties	NLRB
Settlement	Total number of cases resulting in a settlement decision	NLRB
Closure	Total number of cases closed decision.	NLRB
Duration	Log transformation of case duration, measured as the case closure date minus the case filing date	NLRB
Decline in Lawsuit	Change in employee lawsuits between year t and t-1 where positive values are replaced by zero	NLRB
abs(ΔLawsuit)	Absolute value of change in total lawsuit between year t and t-1	NLRB
Δ(TotalLawsuit)	Change in employee lawsuits between year t and t-1	NLRB
Panel B. Institutional Ownership		
Inst. Own%	Total institutional ownership in fraction of shares outstanding	S&PCapital IQ Database and 10K filings
ΔInst. Own%	Change in institutional ownership between year t and t-1	S&PCapital IQ Database and 10K filings
Decline in Inst. Own%	Change in institutional ownership between year t and t-1 where positive values are replaced by zero	S&PCapital IQ Database and 10K filings
abs[ΔInst. Own%]	Absolute value of change in institutional ownership between year t and t-1	S&PCapital IQ Database and 10K filings
Mutual Funds	Percentage of holding by Mutual funds	S&P Capital IQ
Investment	Percentage of holding by Investment banks	S&P Capital IQ
Banks	Percentage of holding by Banks	S&P Capital IQ
Pension	Percentage of holding by Pension Funds	S&P Capital IQ
Insurance	Percentage of holding by Mutual funds	S&P Capital IQ
Investor Horizon	Calculated using investor churn rate from Gaspar et al. (2005)	S&P Capital IQ
Median	Median of Investor Horizon as calculated by Gaspar et al. (2005).	S&P Capital IQ
Long Term	Sum of shares owned by all institutions that hold the stock for more than 1 year, as a per-centage of the firm's total number of shares outstanding.	S&P Capital IQ
Short Term	Sum of shares owned by all institutions that hold the stock for less than 1 year, as a per-centage of the firm's total number of shares outstanding.	S&P Capital IQ
Big4	A dummy variable if a firm's financial statement were audited by a "Big 4" accounting firm.	S&P Capital IQ
#Analyst	The number of analysts covering the firm	S&P Capital IQ

<u>Panel C. Employee Disputes</u>

Log(Total Inspections)	Log transformation of the total number of Occupational Safety and Health Administration inspections.	Dept. of Labor
Log(Discrimination Lawsuit)	Log transformation of the total number of discrimination cases filed against the firm	S&P Capital IQ
Log(Discrimination$$)	Log transformation of the total amount of settlements, attorney fees, and other fees from discrimination announcements and news releases.	S&P Capital IQ
Log(Wage Related Case)	Log transformation of the total number of concluded Wage and Hour Division compliance actions	Dept. of Labor
Log(Wage Related Penalty)	Log transformation of the amount of civil penalty from Wage and Hour Division compliance actions	Dept. of Labor
Panel D. Control Variables		
Log(Asset)	Log transformation of total assets	S&PCapital IQ Database
Book Leverage	Long-term debt divided by book value of assets	S&PCapital IQ Database
ROA	Income before extraordinary items plus depreciation and amortization divided by book value of assets	S&PCapital IQ Database
Tangibility	Ratio of fixed assets to book assets [ppent/at]	S&PCapital IQ Database
Tobin's Q	Market value of assets divided by book value of assets	S&PCapital IQ Database
Log(FirmAge)	Log transformation of firm age	S&PCapital IQ Database
HHI Index	Herfindahl index based on the firm's sales in a given 4-digit SIC industry.	S&PCapital IQ Database
Board Size	Log transformation of total board size	S&PCapital IQ Database
Duality	Binary variable and is equal to one if CEO is also the chairman	S&PCapital IQ Database
Log(Compensation)	Log transformation of total CEO pay	S&PCapital IQ Database
Takeover Index	Firms' susceptibility to hostile takeover	http://pages.uoregon.edu/smckeon/
Union memb. growth	Union membership growth at industry level	www.unionstats.com
Pension expenses	Pension expense divided by the product of beginning share price and common shares outstanding.	S&P Capital IQ
Personal intensity	Number of employee normalized by total assets	S&P Capital IQ
Property, plants and equip.	Natural logarithm of net property, plant and equipment divided by the number of employees.	S&P Capital IQ
Beta	Market beta coefficient for an individual stock	S&P Capital IQ
Alpha	Excess return on individual stock relative to the market index	S&P Capital IQ
Turnover	Annual trading volume of an individual stock normalized by the total shares outstanding	S&P Capital IQ
S&P500	Binary variable and is equal to one if firm is added to S&P500 index, and zero otherwise.	S&P Capital IQ