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Simon Lesmeister, Peter Limbach, Marc Goergen

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## Trust and shareholder voting

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**CFR working paper NO. 18-02**

**Trust and shareholder voting**

**S. Lesmeister • P. Limbach  
• M. Goergen**

**centre for financial research  
cologne**

# Trust and Shareholder Voting

Simon Lesmeister and Peter Limbach

*University of Cologne and Centre for Financial Research (CFR)*

Marc Goergen

*IE Business School and European Corporate Governance Institute (ECGI)*

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## Abstract

We test the hypothesis whether a specific aspect of culture – trust in others – affects shareholder voting behavior by substituting for costly monitoring. We find consistent evidence that the percentage of votes cast at shareholder meetings is lower in high-trust countries while the percentage of votes in support of management proposals is higher. Shocks to trust and IV regressions confirm these results. We also find that shareholder voting is more valuable in low-trust countries, as reflected by a more positive effect on future firm performance, which suggests that managers do not exploit lower levels of monitoring when trust is high.

**Keywords:** Culture; Monitoring; Shareholder expropriation; Shareholder voting; Trust

**JEL codes:** G3, G19, G32

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Simon Lesmeister and Peter Limbach are with the University of Cologne and the Centre for Financial Research (CFR), Albertus-Magnus-Platz, 50923 Cologne, Germany (e-mail: [lesmeister@wiso.uni-koeln.de](mailto:lesmeister@wiso.uni-koeln.de) and [plimbach@wiso.uni-koeln.de](mailto:plimbach@wiso.uni-koeln.de)). Marc Goergen is with IE Business School (Calle María de Molina 12, 28006 Madrid, Spain) and the European Corporate Governance Institute in Brussels, Belgium (e-mail: [Marc.Goergen@ie.edu](mailto:Marc.Goergen@ie.edu)).

There is an extensive literature in economics that studies the impact of culture on human and organizational behavior (for a review, see Guiso, Sapienza, and Zingales, 2006). A significant part of this literature examines the impact of societal trust on economic outcomes such as organizational productivity (Bloom, Sadun, and van Reenen, 2012), economic growth (Knack and Keefer, 1997; Zak and Knack, 2001), and stock market participation (Guiso, Sapienza, and Zingales, 2008b). These studies tend to assume that trust in others substitutes for costly monitoring.<sup>1</sup> Our study is the first to directly test this assumption. Specifically, we examine how the level of trust in others that prevails in a country affects shareholder monitoring via voting – i.e., shareholder participation and votes in support of management proposals – and ultimately firm performance. Thereby, our study expands the sparse literatures on voting participation by corporate shareholders, the impact of culture on corporate governance, and the trade-off between trust and control.

Trust can be defined as “*a propensity of people in a society to cooperate to produce socially efficient outcomes and to avoid inefficient noncooperative traps*” (La Porta et al., 1997, p.333). Hence, the level of trust that prevails in a country can be important within a principal-agent setting characterized by the separation of ownership and control as well as asymmetric information, where principals always have to rely, to some extent, on agents not exploiting uncontracted contingencies. In this context, theory (e.g., Zak and Knack, 2001; Chami and Fullenkamp, 2002; Sliwka, 2007) predicts a negative relation between the time that principals spend on monitoring agents and trust as the latter limits moral hazard problems and hence principals’ concerns about being expropriated.

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<sup>1</sup> For example, Knack and Keefer (1997, p.1252) argue that “individuals in higher-trust societies spend less to protect themselves from being exploited in economic transactions”. See also Allen (2005) who argues that trust and reputation, by acting as substitutes for good corporate governance and strong laws, have enabled China to experience strong economic growth despite weak institutions.

In general, trust as well as other manifestations of social capital discourage opportunistic, norm-deviant behavior (Gusio, Sapienza, and Zingales, 2011), which includes moral hazard in firms (Hoi, Wu, and Zhang, 2018; Hilary and Huang, 2015). In this regard, the literature suggests that trust in others is not normally exploited because norm-deviant, cheating behavior entails psychological and social costs, such as guilt and shame, costs of a lack of reciprocation or ostracism and more direct punishment by others (e.g., Knack and Keefer, 1997; Fehr and Gaechter, 2000; Francois and Zabochnik, 2005). In their theoretical model, Anderlini and Terlizzese (2017) show that these costs may sustain trust as an equilibrium phenomenon where the costs of cheating increase with the level of trust that prevails in a society (for related equilibrium analyses of trust, see, e.g., Huang and Wu, 1994; Dufwenberg, 2002). That is, the higher the level of trust that prevails in an agent's environment, the less likely is the agent to cheat or expropriate the principal and the more are principals able to reduce their monitoring efforts. Hence, trust may effectively substitute for costly monitoring.

This study performs a direct and novel test of the theoretical prediction that high levels of trust reduce the amount of time economic agents spend on monitoring. More specifically, we focus on the relation between the level of trust in others that prevails in a country and shareholder voting. The latter is the most direct manifestation of shareholders' residual rights vis-à-vis the company and the primary mechanism via which most shareholders affect corporate management (see, e.g., Yermack, 2010; Edmans and Holderness, 2017). Their votes enable shareholders to vote for or against the appointment or re-appointment of members to the board of directors, approve mergers and acquisitions as well as other voted proposals at the annual general shareholders' meeting (AGM) or a special shareholders' meeting. Extant empirical evidence suggests that voting is an effective governance mechanism around the world (Iliev et al., 2015) and that voting rights are

valuable (e.g., Zingales, 1994, 1995; Dyck and Zingales, 2004). Nevertheless, voting may be costly, in particular in terms of the gathering of information and the monitoring of management that is needed for shareholders to vote in an informed fashion. When deciding on whether to exercise their votes, shareholders trade-off the costs and benefits of voting. *Ceteris paribus*, a higher level of trust, which mitigates shareholders' concerns of being expropriated and hence their expected (net) benefits from monitoring, can be expected to reduce shareholders' voting efforts.<sup>2</sup> For some shareholders the costs of voting might exceed the benefits, which may induce them to rely on other shareholders to monitor management. This free-riding may result in insufficient monitoring of management, which would ultimately reduce firm value (Grossman and Hart, 1980). However, theory suggests that the potentially negative effect of reduced monitoring will be mitigated or even cancelled out in high-trust countries where managers are less likely to exploit their discretion to act against the interests of shareholders due to the higher costs of cheating.

We study the following two patterns of shareholder voting: shareholder participation, i.e., the total percentage of votes cast, and the percentage of votes cast in favor of management proposals. Based on the above discussion, we expect that trust affects the level of shareholder monitoring as measured by shareholder voting. We formulate the following three hypotheses:

*H1: Shareholder participation is lower in high-trust countries.*

*H2: The percentage of votes in favor of management is greater in high-trust countries.*

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<sup>2</sup> In this regard, Dyck and Zingales (2004) find that the value of voting rights is negatively correlated with the degree of investor rights. This evidence suggests that shareholders, in particular minority shareholders, are more inclined to vote the higher the risk of expropriation they face. Similarly, Iliev et al. (2015) find that shareholder dissent is greater when the risk of expropriation is higher. Our empirical tests account for shareholder protection and legal systems.

As stated above, we also expect that trust cancels out the negative effect of low monitoring on firm performance and firm value:

*H3: The negative effects of low shareholder monitoring are cancelled out in high-trust countries.*

Using data from the World Values Survey (WVS) to measure trust in others at the firms' country of headquarters, this paper provides evidence in support of Hypotheses 1 to 3. Specifically, as per Hypotheses 1 and 2, regressions of measures of shareholder voting on trust and extensive sets of controls for country, firm, and ownership characteristics as well as sub-continent-fixed effects suggest that shareholder monitoring is lower where the level of trust is higher. An increase in trust by one standard deviation is associated with a decrease in votes cast of 40% of a standard deviation, or 8.5 percentage points, and with an increase in votes for management proposals of 30% of a standard deviation, corresponding to a reduction in the likelihood of a management proposal being rejected (i.e., the percentage of votes for management being less than 50%) of 5 percentage points. Importantly, we also find that the negative effect of low monitoring, i.e., a low percentage of votes cast and less dissent voting, on firm performance and value is cancelled out in high-trust countries, as per Hypothesis 3. This result indicates that, on average, managers do not exploit lower levels of monitoring in high-trust settings, consistent with trust being an equilibrium phenomenon.

Our empirical results are supported by several identification tests. First, our results are upheld when we restrict our sample to European countries, whereby we focus on one geographic region with comparable economies, similar laws pertaining to corporations and shareholder voting, and a joint history. Second, the results are supported by instrumental variables regressions, which



instrumentalize trust by the share of people who are Roman Catholics or, more generally, who belong to a hierarchical religion. This approach follows Putnam (1993) and La Porta et al. (1997) who argue that these religions have undermined the development of trust among people. Alternatively, we use the Roman Empire, i.e., a major historical force for the dissemination of Roman Catholicism in Europe, as an instrument for trust and find our results are upheld. Third, following Ahern (2018) who provides causal evidence that terrorist attacks reduce trust in others, we use such attacks prior to shareholder meetings as transitory negative shocks to trust. To mitigate concerns that institutional or economic responses to terrorism drive our results, we consider shareholder meetings as treated if they take place within a month after a terrorist attack. We find that these shareholder meetings are associated with more votes cast and fewer votes cast in support of management proposals compared to shareholder meetings by firms in the same country, industry, and year. Fourth, the results are robust to including controls for prevailing levels of confidence in companies, the government, and the press as well as for the average level of trust that prevails in the home countries of the firms' largest foreign investors. The results are also robust to controlling for the quality of firms' governance, i.e., ESG ratings, ISS voting recommendations, and management compensation. Finally, consistent with extant literature, we find that the impact of trust on shareholder voting is more pronounced in firms that are subject to greater asymmetry of information (i.e., smaller and younger firms). Hence, the effect of trust does not only vary across countries, but also across firms within a given country.

This paper proceeds as follows. Section 1 discusses the paper's contribution to the literature. Section 2 presents the data, methodology, and summary statistics. Section 3 proceeds with the empirical analysis while we run a battery of robustness tests in Section 4. Conclusions follow.

## **1. Contribution to the literature**

This paper contributes to three strands of the literature. First, it contributes to the literature on culture, governance, and economic outcomes, particularly to the literature that links trust to economic growth and organizational performance (e.g., Knack and Keefer, 1997; La Porta et al., 1997; Zak and Knack, 2001; Algan and Cahuc, 2010; Bloom, Sadun, and Van Reenen, 2012). While this literature hypothesizes that trust in others facilitates cooperation and allows economic actors to spend more time on production rather than monitoring, none of the existing studies directly tests the validity of this hypothesis. Our study is the first to provide direct empirical support for it. More generally, our study extends the sparse literature on the impact of culture on corporate governance (e.g., Licht, Goldschmidt, and Schwartz, 2005). In this context, Hilary and Huang (2015) and Hoi, Wu, and Zhang (2018) provide evidence for the U.S. that the level of trust and other social capital that prevails in the county where a firm is headquartered mitigates agency problems such as CEO rent extraction and over-investment. Furthermore, Urban (2018) finds that in more hierarchical countries, i.e., those where greater power distance (Hofstede, 2001) prevails, the CEO turnover-performance sensitivity is lower. Our study differs from the previous studies as it focuses on direct monitoring by shareholders, rather than delegated monitoring by the board of directors, while controlling for firms' governance quality and CEO pay as well as country-level power distance.

Second, our paper contributes to the emerging literature on shareholder voting behavior, which explains differences in voting across countries and companies. Iliev et al. (2015) study the legal and firm-specific determinants of votes cast by U.S. institutional investors. Using a sample of non-U.S. firms from 43 countries, it finds that weaker investor protection and law enforcement as well as more insider ownership are associated with a lower percentage of votes cast in support

of management. This evidence suggests that dissent is greater when shareholders are more likely to be expropriated, in line with the results of our study. Van der Elst (2011) focuses on the concentration of control rights and shareholder groups as determinants of shareholder voting participation in Europe. Our study extends this literature. Taking the aforementioned determinants into account, we provide evidence that an important aspect of culture, trust in others, affects both shareholder participation and dissent with management. In contrast to the two previous studies, our paper is neither limited to U.S. institutional investors nor to shareholder voting in Europe.<sup>3</sup>

Finally, our paper also contributes to the intersection of the above two strands of literature by providing evidence that while a lower percentage of votes cast as well as a higher percentage of votes in support of management reduces future firm performance and value, this negative effect is cancelled out in high-trust countries. This evidence suggests that the value of monitoring depends on the level of trust, which prevails in a country, and that it is rational for investors to conduct less costly monitoring if trust is high. Thereby, our study provides empirical support for theories that argue that trust is an equilibrium phenomenon under which agents do not normally exploit principals who trust them because cheating is associated with costs (e.g., Anderlini and Terlizzese, 2017). Our study also contributes to the literature on the importance of incomplete contracts and the optimal level of control (e.g., Scott, 2003; Falk and Kosfeld, 2006; Faleye, Hoitash, and Hoitash, 2011), particularly the trade-off between control and trust (e.g., Sliwka, 2007). While

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<sup>3</sup> Adding to this literature, Cvijanovic, Groen-Xu, and Zachariadis (2017) provide a model on voting participation by shareholders. They show that more homogeneity in the ex-ante preferences among shareholders leads to lower voting participation, while greater disagreement yields higher participation rates. They provide empirical support for their model using voting data for the U.S.A., where average voter turnout (77%) is much higher than in most other countries.

much of this literature is theoretical or relies on experimental evidence, our study provides direct empirical evidence from shareholder monitoring via voting.

## **2. Data, Methodology, and Summary Statistics**

### 2.1 Data Sources and Sample Selection

We use a cross-country panel of firms that comprises data on shareholder voting behavior as well as firm, ownership, and country characteristics. We obtain voting data from ISS Voting Analytics, which covers international voting results of shareholder meetings, excluding the U.S.A., starting with the year 2013. We use information from shareholder meetings taking place between 2013 and 2015.<sup>4</sup> We obtain the CUSIP, company name, meeting date, meeting type, agenda item description, ISS proposal category, percentage of total votes exercised, and the percentages of votes cast in favor of and against each proposal. We merge the voting data with firm-level data from Thomson Reuters Eikon, including accounting, ownership, and stock price data.

ISS Voting Analytics distinguishes between management-initiated proposals and shareholder-initiated proposals. In what follows, unless otherwise specified, we focus on the former for two reasons. First, we are interested in the support, or absence thereof, managers receive from their shareholders. Second, virtually all of the proposals are management-initiated proposals (see Panel C of Table 1). Overall, our sample consists of 194,548 management-initiated proposals with

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<sup>4</sup> Trust is persistent over time, as its formation is tied to historical developments often dating back hundreds of years and as beliefs and values are transmitted fairly unchanged from one generation to the next one (see Guiso, Sapienza, and Zingales, 2006, 2016; Algan and Cahuc, 2010). Hence, studying many years of data, which is not feasible for cross-country voting data, does not add much value. Nevertheless, we study three years of data because we rely on transitory shocks to trust for identification and because more observations are associated with more variation in shareholder voting behavior and potential covariates of trust. We find that our results remain qualitatively similar when we perform our baseline regressions reported in Table 2 and Table 3 for each sample year.

information on votes exercised in favor of these management-initiated proposals, i.e., management “for” votes. We aggregate proposal-level data for each meeting, resulting in data for 27,645 meetings with information on average management “for” votes and firm-level characteristics for 9,087 individual firms from 44 different countries. Data on the percentage of votes cast (*% Votes cast*) is available for 14,085 shareholder meetings held by 4,377 unique firms from 43 different countries.<sup>5</sup>

We use country-level control variables based on Djankov et al. (2008), the World Bank, and the World Values Survey (WVS). Adding the country-level characteristics leaves us with an unbalanced panel of 25,838 shareholder meetings with data on votes in support of management for 8,373 unique firms from 32 different countries. The sample for the regressions including *% Votes cast* is smaller with 13,383 meetings for 4,022 firms from 31 different countries.

## 2.2 Key Variables and Methodology

Our main regression model is as follows:

$$y_{it} = \alpha + \beta_1 \times \text{Trust}_i + \beta_2 \times \text{firm characteristics}_{it} + \beta_3 \times \text{ownership characteristics}_{it} + \beta_4 \times \text{country characteristics}_{it} + \text{year dummies} + \text{industry dummies} + \varepsilon_{it}$$

Our two main dependent variables are *% Votes cast* and *% Mgmt. “for” votes*. The variable *% Votes cast* is the average percentage of votes cast at a shareholder meeting. *% Mgmt. “for” votes* is the percentage of votes cast in favor of management-initiated proposals. We calculate the average percentage of votes in favor of all management-initiated proposals for each meeting. Additionally,

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<sup>5</sup> We have data on “against” votes, firm, and country characteristics for 17,682 meetings. For the regression results with “against” votes as the dependent variable, see Appendix B.

we classify management proposals by their type (director, capitalization, M&A, and compensation related proposals), as per Iliev et al. (2015). For robustness, we use alternative measures of shareholder dissent. Specifically, we use the indicator variables *Dissent* and *Mgmt. proposal rejected*. The former equals one if the variable *% Mgmt. "for" votes* takes a value in the first quartile of its sample distribution, and zero otherwise. The latter equals one if *% Mgmt. "for" votes* is below 50%, and zero otherwise. We also use the variable *# shareholder proposals*, which is the number of proposals that shareholders submitted to the shareholder meeting.

Our main explanatory variable is *Trust*. In line with the economics literature, we obtain this measure from WVS.<sup>6</sup> It is the proportion of survey respondents for each country agreeing that “most people can be trusted” against the alternative that “you can’t be too careful in dealing with people”. This measure focuses on general trust, i.e., “the trust that people have toward a random member of an identifiable group” (see Guiso, Sapienza, and Zingales, 2009, p. 1101), which is different from interpersonal trust, i.e., mutual trust individuals develop via repeated interactions (e.g., Greif 1993). The WVS trust measure we use has been shown to be a valid predictor for actual general trusting behavior (e.g., Knack and Keefer, 1997; Guiso, Sapienza, and Zingales, 2011; Johnson and Mislin, 2012; Sapienza, Toldra-Simats, and Zingales, 2013).

The regressions include the following sets of control variables: firm characteristics, ownership characteristics, and country characteristics. Firm characteristics include the three-year average ROE; firm age since foundation; leverage; the natural logarithm of market capitalization; the market-to-book ratio; the stock market return; and an indicator variable, which equals one if

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<sup>6</sup> The WVS measure of trust in others is the most frequently used measure of trust (and social capital) by other empirical studies, such as Knack and Keefer (1997), La Porta et al. (1997), Zak and Knack (2001), Guiso, Sapienza, and Zingales (2004, 2008b, 2009), Bloom, Sadun, and Van Reenen (2012), and Ahern (2018).

the meeting is a special meeting, and zero otherwise. Firm-level controls are consistent with Iliev et al. (2015). The ownership variables we control for are the percentage of free float; the percentage of shares held by foreign investors; the percentage of shares held by institutional investors (both with respect to the firm's 50 largest investors); the percentage of shares held by the largest investor; the Herfindahl-Hirschman index based on the largest ten investors; and indicator variables, which capture different types of largest investor (i.e., a bank, a corporation, a family, the government, the management, and an institutional shareholder). We use the above firm and ownership controls to take into account that countries with different levels of trust may have systematic differences in firm and ownership characteristics that might affect shareholder voting behavior. The country controls include Djankov et al.'s (2008) anti-self-dealing index (ASDI), which focuses on private enforcement mechanisms that govern self-dealing transactions. We also include the revised anti-director-rights index (ADRI) from Djankov et al. (2008), which measures the protection of minority shareholders. Furthermore, we use Djankov et al.'s (2008) categorization of legal families to classify the countries where the sample companies have their headquarters by their legal origin (English, French, and German). We also use GDP per capita, market capitalization as a percentage of the country's GDP, and rule of law. We use these country-level controls as both the level of trust and shareholder voting behavior in a country may be affected by the quality of a country's institutions and its general economic situation. All variables are defined in Appendix A.

Finally, given that the variable *Trust* is time-invariant over our sample period (and highly persistent over time), we mainly use industry-fixed effects regressions to estimate the effect of trust on shareholder voting behavior. However, to account for regional economic factors and cultural covariates of trust that might have developed historically and might impact shareholder voting, we

also estimate regressions, which control for sub-continent-fixed effects.<sup>7</sup> Following Iliev et al. (2015), the regressions are estimated at the firm level.<sup>8</sup> We use a linear probability model (LPM) if the dependent variable is either *Dissent* or *Mgmt. proposal rejected*. Furthermore, we conduct several identification tests, which include i) regressions based on a sample limited to Europe, i.e., one geographic region with similar laws and a joint history, ii) two-stage least squares (2SLS) regressions where we instrumentalize trust by the religious denominations that prevail in a country, and iii) terrorist attacks prior to shareholder meetings as exogenous, transitory shocks to trust. All regressions are estimated with standard errors clustered at the firm level. For robustness, we re-estimate all regressions using standard errors clustered at the country level. Our main results are upheld. We report the results in the Internet Appendix to this paper.

### 2.3 Summary Statistics

Table 1 shows summary statistics for trust and firm-level voting by country (Panel A), for the control variables (Panel B), and for the average percentage of votes cast in favor of the various types of voted proposals (Panel C). Panel A shows that trust, which has a cross-country mean of 45%, ranges from a minimum of 4% for Colombia to a maximum of 74% for Norway. The average percentage of votes cast ranges from 40.8% for New Zealand to 100% for Cyprus. The mean percentage of votes cast across the sample is 59%, which is identical to the average reported in Van der Elst (2011). Finally, the average percentage of votes in support of management, which has a

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<sup>7</sup> Given the countries in our sample, we use the twelve sub-continent: Europe, North Africa, Sub-Saharan Africa, East Asia, West and Central Asia, North Asia, South and South-East Asia, Oceania, North America, South America, Mesoamerica, and the Caribbean Islands. Our results remain qualitatively similar when we use more or less granular regional clusters (e.g., smaller sub-continent or entire continent) in untabulated regressions.

<sup>8</sup> When we estimate regressions where the dependent variable is % *Mgmt. "for" votes* at the proposal level rather than the firm level, the results (not tabulated) are qualitatively similar, independent of whether we use standard errors clustered at the firm level or the meeting level.



sample mean of 96%, ranges from a low of 83.8% for Bulgaria to 100% for Jordan, Kazakhstan, Kuwait, Morocco, and Qatar. The figures we obtain for the average percentage of votes in support of management are comparable to those from Iliev et al. (2015) and Cai, Garner, and Walkling (2009) who find a similar, limited range of values for 43 non-U.S. countries and for the U.S.A., respectively.<sup>9</sup>

Panel B shows that the average (median) firm has an ROE of 5.6% (8.8%), is 31 (20) years old, has leverage of 0.20 (0.18), a market capitalization of about US\$ 550 (639) million, and a market-to-book ratio of 4.7 (1.6). Special meetings account for 35.5% of all shareholder meetings. Concerning the ownership characteristics, free float is on average 43%. Domestic investors hold on average 44% of the shares, whereas foreign investors hold only 13% of the shares. The largest investor holds 28% of the shares on average. Other corporations are the most frequent type of largest shareholder and they are present in the majority of firms (56%). The second most frequent type of largest investor is both families and institutional shareholders: they are each present in about 18% of the firms. Banks (4%), the government (2%), and the management (1%) are only rarely the largest investor. Observations for firms from countries with English, French, and German law amount to roughly 35%, 36%, and 29% of the observations, respectively. The average (median) sample firm has an ADRI and ASDI index of 3.4 (4) and 0.66 (0.65). Finally, the mean (median) ratio of a country's market capitalization to its GDP is 170% (77%) while average GDP per capita amounts to \$28,323 (\$34,960).

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<sup>9</sup> As reported in Panel A of Table 1, the number of observations for some of the countries is very small. When the observations for countries with less than 30 observations are dropped from the sample, our results are upheld.

Panel C of Table 1 shows the average percentage of votes in favor of the various types of proposals. The panel distinguishes between management-initiated and shareholder-initiated proposals. Again, most proposals (i.e., a total of 195,217 or 98.7%) are of the former type. Following Iliev et al. (2015), the panel also distinguishes between four main types of management-initiated proposals: *Directors* (e.g., election of directors), *Capitalization* (e.g., authorizing a stock repurchase program), *M&A* (e.g., approving a transaction with a related party) and *Compensation* (e.g., approving a remuneration report). Almost half of the management-initiated proposals are director-related proposals. Across all four categories, the country average percentage of votes in favor ranges from a low of 61.57% to a high of 100%.

Finally, we briefly discuss the pairwise correlations between our variable of interest, *Trust*, and the control variables (described in Section 2.2). The correlations are shown in Table IA.1 of the Internet Appendix. While the correlations are generally moderate, *Trust* correlates significantly with *Firm age* (0.23), the Djankov et al. (2008) dummies for English (-0.24) and French (0.23) legal origin, and the ASDI index (0.26). The only very strong pairwise correlation, -0.64, is between *Trust* and the ADRI index, which is consistent with Aghion et al. (2010) who find a strong, negative correlation between trust in others and government regulation for a cross-section of countries comparable to ours. This significantly negative correlation makes it very unlikely that any negative relation between trust and shareholder voting behavior reflects better legal shareholder protection or other aspects of government regulation relevant to shareholders.

### **3. Empirical Results**

In the following, we present the results of empirical analyses testing Hypotheses 1 and 2 that the level of trust that prevails in a country has a negative impact on shareholder monitoring as reflected

by the voting behavior of shareholders. This voting behavior is measured by the percentage of votes cast at the shareholder meeting (*% Votes cast*) and the percentage of votes in favor of management-initiated proposals (*% Mgmt. "for" votes*). Section 3.1 provides country-level evidence on the relation between trust and shareholder voting behavior. Section 3.2 presents the results from our baseline firm-level regressions of the measures of shareholder voting behavior on country trust and extensive sets of control variables. Testing the validity of Hypothesis 3, Section 3.3 provides empirical evidence on the firm performance and firm value implications of the relation between trust and shareholder voting.

### 3.1 Country-level Evidence

The first step in our empirical analysis is to conduct a simple test of the validity of our first two hypotheses, by considering the country-level relation between trust and the country averages for the two measures of shareholder voting behavior. The evidence shown in Figure 1 suggests that there is a relation between trust and shareholder voting at the country level. More specifically, Figure 1a plots the average *% Votes cast* per country against *Trust* for the 47 countries with available data for votes cast. The figure suggests a negative relation between the two variables, with high-trust countries having lower average percentages of votes cast at shareholder meetings. Figure 1b plots the average *% Mgmt. "for" votes* per country against country trust for 46 countries with available data for votes in support of management. The relation between the two is positive with the percentage of votes in support of management increasing with country trust. Untabulated country-level regressions (with controls similar to those in Section 3.2) provide further empirical support for the aforementioned relations and hence for Hypotheses 1 and 2.

### 3.2 Baseline Regression Results

The third step of our empirical analysis consists of estimating multivariate firm-level regressions of the shareholder voting measures on our variable of interest, *Trust*, and various control variables. Table 2 contains the results for the regressions explaining the variable *% Votes cast*. The regression in column (1) includes *Trust* as well as year- and industry-fixed effects. The regressions in columns (2) and (3) are augmented by the firm and ownership characteristics, and the firm, ownership, and country characteristics, respectively. The regression in column (4) also includes sub-continent-fixed effects. In all four regressions, the coefficient on *Trust* is negative and significant at the 1% level (with p-values < 0.000). This result provides support for Hypothesis 1 that the percentage of votes cast is lower in high-trust countries. In terms of the economic significance, an increase in *Trust* by one standard deviation is associated with a decrease in *% Votes cast* of 6.2 to 8.5 percentage points (or 30-41 percent of one standard deviation).

With regard to the control variables, the results are as follows. The percentage of votes cast is greater for older and larger firms, and for firms with a lower stock return. It is also greater for firms with a larger percentage of shares held by foreign investors and for firms with more concentrated ownership as reflected by a higher Herfindahl index for the top 10 stakes in the firm. Conversely, the percentage of votes cast is lower for firms with greater free float. While the total percentage of shares held by institutional investors decreases the percentage of votes cast, this percentage is higher if the largest investor is an institutional investor. The percentage of votes cast is also lower at special shareholder meetings. The results for firm size and concentrated ownership are consistent with Van der Elst (2011). Interestingly, most of the country characteristics are also significant. Contrary to expectations, the Djankov et al. (2008) ADRI and ASDI have a significantly positive effect on the percentage of votes cast.

Table 3 reports the results for the regressions explaining the variable *% Mgmt. “for” votes*. In terms of control variables, the four columns in Table 3 are equivalent to the four columns in Table 2. As per Hypothesis 2, throughout columns (1) to (4) the coefficient on *Trust* is positive and significant at the 1% level (with p-values < 0.000), consistent with a positive effect of trust on the percentage of votes in support of management. This result is supported by the evidence presented in Appendix B, which shows the results of regressions similar to those in column (4) of Table 3, but with the different measures of shareholder dissent as the dependent variable. We find the coefficient on *Trust* to be significantly negative when we use the percentage of votes against management (*% Mgmt. “against” votes*), the indicator variables *Dissent* and *Mgmt. proposal rejected*, and the count variable *# shareholder proposals* as the dependent variable. That is, trust is associated with significantly lower shareholder dissent. In terms of economic significance, an increase in *Trust* by one standard deviation is associated with an increase in *% Mgmt. “for” votes* of up to 30 percent of a standard deviation and a decrease in the likelihood of shareholder dissent (*Dissent*) and the likelihood of at least one management proposal being rejected (*Mgmt. proposal rejected*) of 15% and 5%, respectively.

As to the control variables, the percentage of votes in support of management increases with the stock return and ROE, but decreases with the percentages of ownership of foreign and institutional investors as well as with the free float. Support for management is also lower at special shareholder meetings.

The analysis in Appendix C focuses on explaining the support management obtains for the four main types of management-initiated proposals. The regressions, which are estimated at the proposal type-level, are similar to those in column (4) of Table 3, except for the dependent variable. The results suggest that trust matters for director-related (column (1)), capitalization-related

(column (2)), and compensation-related proposals (column (4)). For the three types of proposals, the coefficient on *Trust* is statistically significant at the 1% level (again with p-values < 0.000). In contrast, we find no evidence that trust matters for M&A-related proposals (column (3)). These proposals tend to be easier for small shareholders to assess due to the high press coverage of M&As, which makes trust less likely to be a determinant of the percentage of votes in support of such proposals. Further, Panel C of Table 1 suggests that many M&A-related proposals originate from a small number of countries, i.e., China, India, and Japan, with relatively high average percentages of votes in support, but very different levels of trust ranging from 0.22 for India to 0.64 for China.

Finally, we re-estimate the regressions shown in Table 2 and Table 3 with the dependent variables *% Votes cast* and *% Mgmt. "for" votes* adjusted by the percentage of votes held by the 50 largest investors. We make this adjustment because, in contrast to small shareholders, large investors are much more likely to exercise their votes and may also be directly involved in the management of the firm (as this is often the case in family firms). As shown in Appendix D, we still find that trust has a negative effect (significant at the 5% level or better) on *% Votes cast* and a positive effect (significant at the 1% level) on *% Mgmt. "for" votes*.

### 3.3 Implications for Optimal Monitoring and Firm Performance

The previous results raise the question whether firm management exploits reduced shareholder monitoring, i.e., a lower percentage of votes cast and less dissent voting, in high-trust countries or whether the costs of cheating discourage managerial misbehavior. More generally, does the optimal (i.e., value-maximizing) level of shareholder monitoring depend on prevailing levels of trust?

We expect that a low percentage of votes cast and too little dissent with firm management reflect a lack of managerial oversight by shareholders and may therefore have a negative effect on

a firm's stock performance and value. However, according to Hypothesis 3 we expect this negative effect to be mitigated in high-trust countries where managers, due to the higher costs of cheating, are more likely to act in the interests of the shareholders, independent of the degree of shareholder monitoring.

Table 4 reports the regressions of the stock return and alternatively Tobin's Q in year  $t+1$  on *Trust*, on an indicator variable, which is set to one if the percentage of votes cast is below (the percentage of votes in support of management is above) the sample median, and zero otherwise; and on the interaction between the two previous variables, i.e., *Trust\*Low votes cast* and *Trust\*High mgmt. "for" votes*. A benefit from this analysis is that the aforementioned interactions allow us to include country-fixed effects to control for potential time-invariant heterogeneity across countries. We present the results of regressions estimated with and without country-fixed effects.

Columns (1) to (4) of Table 4 focus on the 'Low votes cast' indicator variable whereas columns (5) to (8) focus on the *High mgmt. "for" votes* indicator variable. In line with La Porta et al. (1997) and Bloom, Sadun, and van Reenen (2012), who report that trust improves the performance and productivity of large organizations, we find that trust has a positive effect on firm performance and value while being significant at the 1% level. As expected, the percentage of votes cast being low has a significant (at the 1% level) and negative effect on both firm stock performance and value while the percentage of votes in support of management has a significant (at the 1% level) and negative effect on stock performance. These results suggest that a lack of shareholder monitoring has a negative effect on firm performance and value. Importantly, the coefficient on *Trust\*Low votes cast* is significant (at the 1% level) and positive. This result suggests that the negative effect of low shareholder monitoring is reduced in high-trust countries where managers are less likely to act against the interests of their shareholders. In a similar vein, the coefficient on

*Trust\*High mgmt. "for" votes* is significant (at the 1% level) and positive, indicating that the negative effect of too little dissent voting on firm performance and value is also mitigated in high-trust countries. All results remain qualitatively similar when we control for country-fixed effects in columns (2), (4), (6) and (8), which suggests that our results for trust do not depend on unobserved time-invariant country-specific heterogeneity.<sup>10</sup>

The results in Table 4 indicate that the negative effects of low monitoring are mitigated or even cancelled out in high-trust countries. Specifically, the negative effect of *Low votes cast* is cancelled out by the positive effect of *Trust\*Low votes cast* for values of *Trust* of 0.51 (*Stock return<sub>t+1</sub>*) and 0.46 (*Tobin's Q<sub>t+1</sub>*). The negative effect of *High mgmt. "for" votes* is cancelled out for values of *Trust* of 0.31 (*Stock return<sub>t+1</sub>*) and 0.13 (*Tobin's Q<sub>t+1</sub>*). These numbers are based on the estimations without country-fixed effects and relate to a median (mean) for *Trust* of 0.28 (0.45).

Overall, our results suggest that managers do not exploit low levels of shareholder monitoring in high-trust countries, consistent with the high costs of cheating sustaining a trust equilibrium as theorized in the literature (e.g., Anderlini and Terlizzese, 2017). For some high-trust countries, the lower levels of shareholder monitoring are even associated with higher stock performance and firm value, in line with the existing evidence that managerial discretion and trust in management that less control signals generates not only costs but also benefits (e.g., Sah and Stiglitz, 1986; Falk and Kosfeld, 2006; Sliwka, 2007; Faleye, Hoitash, and Hoitash, 2011). Hence,

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<sup>10</sup> As a robustness test (not tabulated), we regress *% Votes cast* on *Trust*. We then use the residuals from this regression instead of *% Votes cast* in the regressions in Table 4. We do likewise for *% Mgmt. "for" votes*. We find qualitatively similar results to those reported in Table 4. This finding suggests that the results in Table 4 are not driven by a correlation between *Trust* and the two indicator variables for low monitoring intensity.



we conclude that the optimal level of shareholder monitoring depends on the level of trust in others that prevails in a country.

#### **4. Robustness**

In this section, we conduct a number of empirical tests to confirm the robustness of our results and to address potential endogeneity concerns in order to verify the causal link between shareholder voting and trust. When we re-estimate the regressions from our main analysis and robustness tests using standard errors clustered at the country level instead of the firm level, all of our results remain statistically significant as shown in Tables IA.2 to IA.13 of the Internet Appendix. Our results are also upheld when we re-estimate the regressions shown in column (4) of Table 2 and Table 3 separately for each sample year, as shown in Tables IA.14 and IA.15 of the Internet Appendix. The other robustness tests are presented in more detail in Sections 4.1 to 4.5 below.

##### **4.1 Results for Europe and results excluding Scandinavia**

We conduct two tests to mitigate the concern that unobserved country-specific heterogeneity or just a few specific countries drive our results for the baseline regressions shown in Table 2 and Table 3. First, we re-estimate these regressions for the sub-sample of European countries. By focusing on Europe, our tests are based on one geographic region with comparable economies, similar laws pertaining to corporations and shareholder voting, and a joint history. The regression results are reported in Tables IA.16 to IA.19 of the Internet Appendix. As a second test, we re-estimate the regressions in Table 2 and Table 3 excluding the high-trust Scandinavian countries, as shown in Tables IA.20 to IA.23 of the Internet Appendix. Both tests confirm the negative (positive) relation between *Trust* and *%Votes cast (% Mgmt. "for" votes)*.

## 4.2 Instrumental Variables Regressions

To further strengthen the causal link between trust in others and shareholder voting behavior, we conduct a 2SLS instrumental variables (IV) approach where we instrumentalize *Trust*. Consistent with Putnam (1993), the instrument we use is the percentage of the population of each country that are Roman Catholic (*% Roman Catholic*). Alternatively, we follow La Porta et al. (1997) and Zak and Knack (2001) and use as our instrument the percentage of the population of each country that follow a hierarchical religion, i.e., Roman Catholicism, Eastern Orthodox Christianity or Islam (*% Hierarchical religion*). Data on religious denomination is retrieved from WVS (question: “Do you belong to a religion or religious denomination? If yes, which one?”). The reason behind the choice of religion as an instrument is that hierarchical religions have discouraged the formation of trust, because the vertical bond with the church has undermined the horizontal bond with fellow citizens as pointed out by Putnam (1993) and La Porta et al. (1997). That is, we expect our instruments based on religious denomination to show a negative relation with trust. Importantly, the literature argues that religion can be considered exogenous as it is more primitive than cultural values (see, e.g., Guiso, Sapienza, and Zingales, 2006; Pevzner, Xie, and Xin, 2015).<sup>11</sup>

Table 5 reports the results of the first- and second-stage regressions of the 2SLS approach. Panel A shows the results based on using *% Roman Catholic* as the instrument whereas Panel B shows the results based on *% Hierarchical religion* as the alternative instrument. As expected and confirming the results from extant literature, both instruments are statistically significant at the 1% level and negatively correlated with trust in the first-stage regressions (see columns (1) and (3) of

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<sup>11</sup> In their meta-analysis, Smets and van Harm (2013) find that having a religious denomination does not significantly affect voter turnout in political elections. This evidence suggests that, in the context of our study, religious denomination is a plausible instrument for trust, which is unlikely to violate the exclusion restriction.

Panels A and B). The results of the second-stage regressions, which include the instrumentalized country trust (*Trust (IV)*) on the right-hand side, confirm our previous results (see columns (2) and (4) of Panels A and B). The coefficient on *Trust (IV)* is significant at the 1% level throughout all the second-stage regressions and has the expected sign. Hence, country trust still has a significantly negative effect on the percentage of votes cast as well as a significantly positive effect on the percentage of votes in favor of management. Besides the empirical support for the relevance condition, the Kleibergen-Paap F-statistic and the ratio of the IV to OLS estimates (Jiang, 2017), i.e.,  $Trust (IV)/Trust$ , support the quality of our instrumental variables approach. The latter further suggests that the economic significance of instrumentalized trust, *Trust (IV)*, is comparable to that for *Trust* in the baseline regressions in Section 3.2. All these results remain qualitatively identical when we estimate the 2SLS regressions without sub-continent-fixed effects or when we cluster standard errors at the country (instead of the firm) level.

We use an alternative IV approach for robustness. Instead of using religious denomination as an instrument for trust, we focus our analysis on Europe, which reduces the heterogeneity among the sample countries, and use the indicator variable *Roman Empire* as an instrument for trust. This variable equals one for countries that were part of the Roman Empire, and zero otherwise. Thus, we rely on a major historical force for the dissemination of Roman Catholicism instead of relying directly on current levels of the prevalence of Roman Catholicism in our sample countries. Accordingly, we expect *Roman Empire* to have a negative effect on *Trust*. Panel C of Table 5 shows the results from 2SLS regressions similar to those described above. Consistent with our expectation, the coefficient on *Roman Empire* is negative and significant at the 1% level, while *Trust (IV)* is significant at the 5% level or better and has the expected signs. Overall, this alternative IV approach supports our previous results.

### 4.3 Terrorist Attacks as Transitory Negative Shocks to Trust

As a next step, we use terrorist attacks as transitory shocks to trust to identify the link between the latter and shareholder voting. In this regard, Ahern (2018) argues that terrorism has an impact on people's behavior primarily via a psychological channel. Using the WVS trust measure, he provides causal evidence that (major) terrorist attacks lead to a decline in trust in others. Given that such attacks are surprise events, which are unrelated to the characteristics of individual firms and typically cause no (severe) economic damage, they likely cause exogenous reductions in trust levels in the affected countries. To mitigate concerns that institutional or economic responses to terrorism affect shareholder voting behavior, i.e., that terror does not affect voting directly by reducing trust in others, we focus on shareholder meetings taking place just shortly after terrorist attacks.

We obtain information on terrorist attacks (i.e., country and date of the attack, as well as the number of fatalities) for all countries in our sample from the Global Terrorism Database provided by the University of Maryland. We only consider terrorist attacks with at least one fatality. We define a firm's shareholder meeting (both AGM and special meeting) as treated if it is held within one month of a terrorist attack in the country where the firm is headquartered. The respective treatment indicator variable is denoted *Terror*. The two alternative treatment indicator variables, *Terror*  $\geq 10$  fatalities and *Terror*  $\geq 25$  fatalities, equal one if a terrorist attack with at least 10 and at least 25 fatalities, respectively, took place in the firm's country of headquarters in the month before the firm's shareholder meeting; and zero otherwise. We find that between 4% and 41% of the firm-year observations in our sample are treated (depending on the number of fatalities). We additionally use the natural logarithm of the number of fatalities, i.e., *Terror*\* $\ln(\text{fatalities})$ , as an explanatory variable. As our data does not allow us to observe changes to trust, we estimate the reduced form regressions where we regress the dependent variables *% Votes cast* and *% Mgmt.*

“for” votes one by one on the aforementioned treatment variables as well as country-fixed effects, industry-fixed effects, and year-fixed effects. If terrorist attacks indeed reduce trust in others, we expect to find a positive (negative) regression coefficient on *Terror*, *Terror*  $\geq 10$  fatalities, *Terror*  $\geq 25$  fatalities, and *Terror*\* $\ln(\text{fatalities})$  when used to explain % Votes cast (% Mgmt. “for” votes).

The results, presented in Table 6, support our expectations. Except for column (1), the coefficients on *Terror* (columns (1) and (5)), *Terror*  $\geq 10$  fatalities (columns (2) and (6)), *Terror*  $\geq 20$  fatalities (columns (3) and (7)), and *Terror*\* $\ln(\text{fatalities})$  (columns (4) and (8)) are all statistically significant and have the expected sign.<sup>12</sup> When we cluster standard errors at the country level (see Internet Appendix IA.6), all coefficients are statistically significant. The evidence implies that shareholder meetings taking place shortly after terrorist attacks are associated with more votes cast and fewer votes in support of management compared to the shareholder meetings of firms in the same country, industry, and year that are not treated. Furthermore, we find that the treatment effect, as reflected by the magnitude of the regression coefficients on the terror indicator variables and the coefficient on *Terror*\* $\ln(\text{fatalities})$ , increases with the number of fatalities caused by the terrorist attacks. This evidence suggests that our results are unlikely to be spurious, but driven by the exposure to terrorism. In additional, untabulated regressions, which use three months after a terrorist attack as the treatment period, we find only the coefficients on *Terror*  $\geq 10$  fatalities or *Terror*  $\geq 20$  fatalities to be statistically significant, consistent with terrorist attacks causing a

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<sup>12</sup> We note that people might expect repeat terrorist attacks in their country and therefore avoid any kind of public meeting, which may have a negative effect on voter turnout at shareholder meetings after such attacks. Furthermore, more generally terrorist attacks might distract people from their tasks (e.g., due to high media coverage). These effects run against us finding a significant coefficient on *Terror* when explaining % Votes cast and % Mgmt. “for” votes.

reduction in trust, which depends on the severity of the attack. Overall, the results provide further evidence consistent with the notion that trust affects shareholder voting.

#### 4.4 Other Robustness Tests: Type of Trust and Governance Quality

It could be the case that our variable of interest, *Trust*, which measures trust in others, is correlated with or even proxies for people's confidence (or trust) in specific institutions. If so, confidence in specific institutions might be the true driver of shareholder voting behavior. Hence, we re-estimate the regressions shown in column (4) of Table 2 and Table 3 by including measures of the confidence that respondents to WVS have in (1) companies, (2) the government, and (3) the press. Confidence in companies might capture the average reputation of firms in the country, which might serve as a substitute for monitoring by shareholders. Confidence in the government might capture the quality of a country's laws and regulations, not covered by the country controls already included in our regressions (i.e., ADRI, ASDI, legal origin, and rule of law). Confidence in the press potentially accounts for the governance-enabling role of the media (see, e.g., Dyck, Volchkova, and Zingales, 2008; McConnell and Liu, 2013). Respondents were asked to state their level of confidence on a Likert scale where 1 stands for 'none at all', 2 for 'not very much', 3 for 'quite a lot', and 4 for 'a great deal'.<sup>13</sup> For each of these three levels of confidence, we use the average score for each country.

We present our regression results in Table 7. Columns (1) to (5) show the results of the regressions explaining the percentage of votes cast (*% Votes cast*) whereas columns (6) to (10) show the results of the regressions explaining the percentage of votes in support of the firm's

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<sup>13</sup> To facilitate the interpretation of the results, we reversed the original Likert scale from WVS (which assigned a value of 1 to 'a great deal', etc.).

management (*% Mgmt. "for" votes*). The regressions confirm our previous results as we still find a negative effect (significant at the 1% level) of country trust on the percentage of votes cast and a positive effect (significant at the 1% level) of country trust on the percentage of votes in support of management. When all three additional controls are added to the regressions, both confidence in companies and confidence in the government are statistically significant in the regression explaining the percentage of votes cast (see column (4)) whereas confidence in companies is only significant when explaining the percentage of votes in support of management (see column (9)). These results are intuitive as good corporate reputations, reflected by high confidence in companies, is expected to reduce shareholder monitoring. Finally, the effect of trust is also upheld when we use the variable *Residual trust* to explain votes cast and votes in support of management in columns (5) and (10), respectively. *Residual trust* is the residual from a regression of *Trust* on the three measures for confidence in companies, the government, and the press.<sup>14</sup>

Another concern is that shareholder voting is primarily determined by the level of trust in others that prevails in the countries where firms' investors are located rather than the level of trust in the firms' country of headquarters. We re-estimate the regressions shown in column (4) of Table 2 and Table 3 substituting the variable *Trust* for the stock ownership-weighted average level of trust in others that prevails in the countries where a firm's largest foreign investors are headquartered (denoted *Avg trust foreign investors*) but find no significant relation of this variable

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<sup>14</sup> In additional robustness tests (not tabulated), we re-estimate the regressions shown in column (4) of Table 2 and Table 3 by replacing the variable *Trust* by two alternative aspects of social capital: (1) the first principal component of three separate WVS measures, i.e., i) claiming government benefits to which one is not entitled, ii) avoiding fare on public transport, iii) accepting bribes (see Guiso, Sapienza, and Zingales, 2011); and (2) the average annual number of parking violations per diplomat in New York City (see Fisman and Miguel, 2007). While these measures generally confirm our results for *Trust*, we find that the latter is either the only or the most significant variable when the three variables are jointly included in the regressions.

and the dependent variables *% Votes cast* and *% Mgmt. “for” votes*. When we use both variables *Trust* and *Avg trust foreign investors* to explain shareholder voting behavior, only the coefficient on the former is statistically significant (at the 1% level). The results are shown in Table 8.

It could also be the case that *Trust* is correlated with or even proxies for firms’ governance quality (beyond the controls used in our baseline regression model). To address this concern, we re-estimate the regression in column (4) of Table 2 and Table 3 including additional controls for corporate governance, namely a firm’s ESG rating, ISS voting recommendations, total CEO compensation, and the ratio of the CEO’s cash to total compensation.<sup>15</sup> The results are shown in Table 9. ESG ratings (columns (1) and (5)) and ISS recommendations (columns (2) and (6)) are used as controls for a firm’s overall governance quality, whereas the two controls based on CEO compensation (columns (3) and (7) as well as columns (4) and (8)) are used to address the specific concern that trust relates to shareholder voting because it affects CEO compensation and rent extraction. In this regard, Hoi, Wu, and Zhang (2018) provide evidence for the U.S.A. that social capital other than trust is associated with lower CEO total and equity pay. Our results for the variable *Trust* are upheld when we include these additional governance controls, as well as when we include the ISS recommendations and the two controls for management compensation at once (columns (5) and (10)). In line with the literature (e.g., Cai, Garner, and Walkling, 2009), the ISS recommendations have a significantly positive effect on votes in support of management, while the other additional controls have no explanatory power for shareholder voting in general.<sup>16</sup>

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<sup>15</sup> ESG ratings are retrieved from Thomson Reuters Eikon, ISS voting recommendations are from ISS Voting Analytics, and CEO compensation data is retrieved from Capital IQ. Data on CEO compensation and, particularly, on ESG ratings is only available for a limited number of companies and countries.

<sup>16</sup> A related concern is that trust correlates with cultural aspects, which may impact corporate governance. To address this concern, we re-estimate the regression in column (4) of Table 2 and Table 3 controlling for the cultural measures



## 4.5 Sub-sample Analysis

Finally, as trust is more likely to matter in situations characterized by greater asymmetry of information (see, e.g., Guiso, Sapienza, and Zingales, 2008a; Pevzner, Xie, and Xin, 2015), we conduct a sub-sample analysis, distinguishing between (1) large firms and small firms (based on market capitalization) and (2) old and young firms (based on firm age since IPO). The sub-samples are based on the sample median of the measure used. The results are presented in Table 10.

While we find that trust matters in all sub-samples for both the percentage of votes cast and the percentage of votes in support of management, we find that the coefficients on *Trust* are greater (in absolute value) for smaller and younger firms. They are also significantly different from each other, as indicated by the z-test, for the regressions explaining the percentage of votes in support of management. These results are in line with the literature as they suggest that the effect of trust on the voting behavior of shareholders is more pronounced for firms with greater asymmetry of information. Importantly, this evidence indicates that the effect of trust varies not only across countries, but also across firms within a given country.

## 5. Conclusion

This paper is one of the few studies to investigate the effects of culture on investor decisions. To the best of our knowledge, this is the first study to provide empirical evidence on how trust in

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proposed by Hofstede (2001). We control for power distance to take into account that governance may be less stringent in more hierarchical countries, as suggested by Urban (2018). We also control for Hofstede's individualism measure because individualism might exacerbate the free-rider problem of voting, leading to a lower percentage of votes cast. The results are presented in Tables IA.24 and IA.25 of the Internet Appendix. The effect of trust in others is robust to including these controls. As shown in Table IA.26, our results are also robust to controlling for different levels of stock market participation across countries (using data from Giannetti and Koskinen, 2010). This test addresses the concern that trust might affect shareholder voting only because it increases stock market participation (Guiso, Sapienza, and Zingales, 2008b) and, hence, the fraction of less sophisticated (retail) investors who tend to monitor less.

others affects shareholder monitoring, i.e., the percentage of votes cast at shareholder meetings and the percentage of votes in support of management-initiated proposals. In line with extant literature, we hypothesize that in high-trust countries shareholders are less concerned about being expropriated and therefore spend less time on monitoring their holdings.

We find consistent evidence that trust reduces the percentage of votes cast at shareholder meetings while increasing the percentage of votes in favor of management-initiated proposals. Our results are robust to the inclusion of extensive sets of control variables, as well as to a battery of robustness tests including the use of the exogenous component of country trust and terrorist attacks as exogenous, transitory shocks to trust. Importantly, we also find that the negative effect of low levels of shareholder monitoring on firms' future performance and value is cancelled out in high-trust countries. Put differently, shareholder monitoring creates less value in high-trust countries where managers are less likely to exploit the trust and discretion shareholders grant them, consistent with trust being an equilibrium phenomenon.

Our study generates important information for policy makers as well as international investors and proxy advisors. In particular, our study helps explain the significant differences in voting participation by shareholders across countries and provides information on the conditions in which shareholder participation is greater. It further provides information on when shareholder voting is more likely to create value. This information is important for regulators intend on increasing minority shareholder involvement in publicly listed firms to ensure representative voting results and effective monitoring. It is also important for international investors and proxy advisors, who benefit from understanding how agency problems and the value of monitoring via voting vary across countries.

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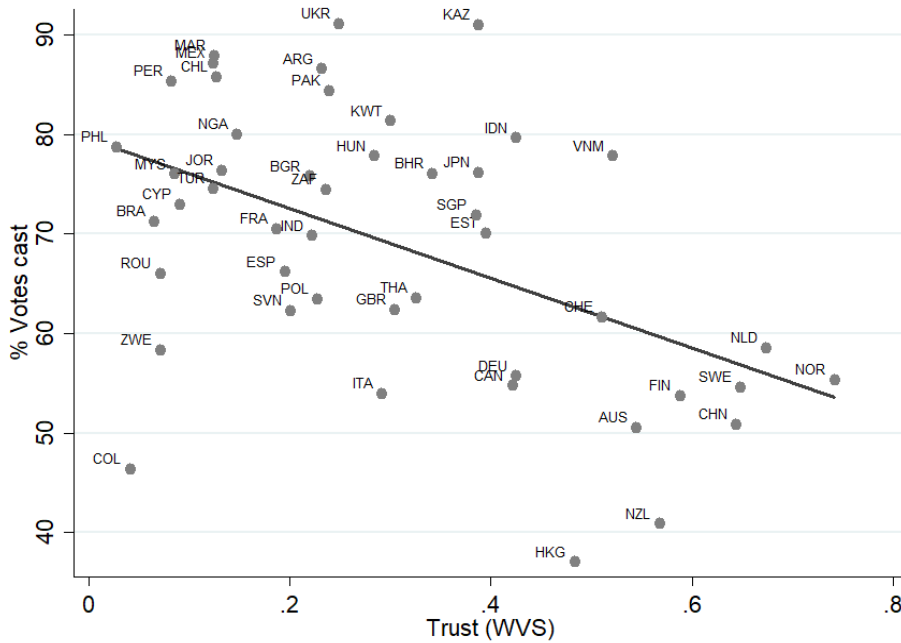
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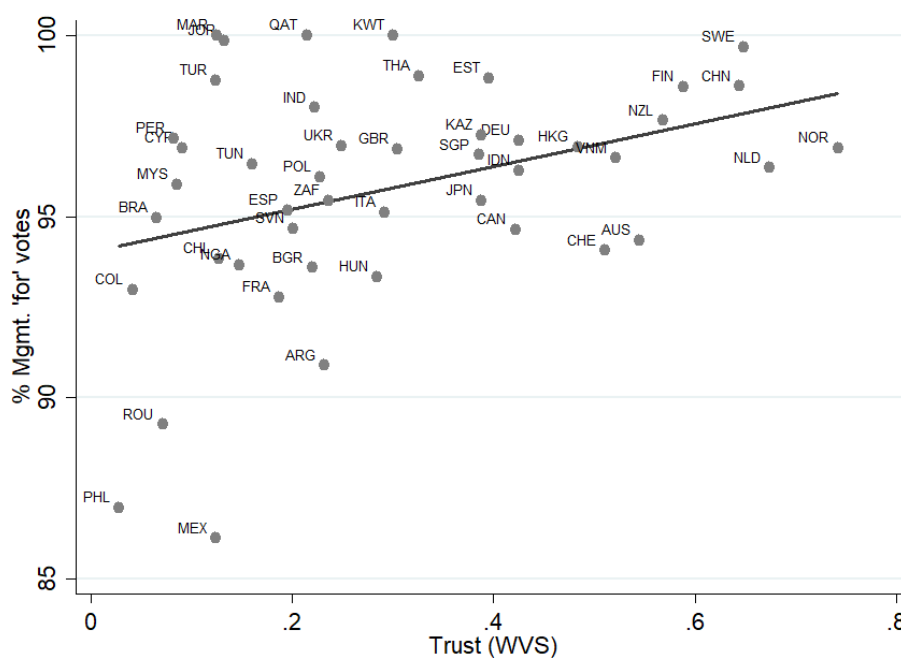
### Figure 1: Trust and shareholder voting behavior per country

This figure illustrates the relation between trust and shareholders' voting behavior. Figure 1a depicts the relation between average % *Votes cast* and *Trust* per country. Figure 1b depicts the relation between average % of *Mgmt "for" votes* and *Trust*. % *Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision for a given shareholder meeting. % *Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'.

**Figure 1a: Average percentage of votes cast and trust per country**



**Figure 1b: Average percentage of votes "for" management and trust per country**



**Table 1: Summary statistics**

Panel A shows country-level summary statistics for the variables *% Votes cast*, *% Mgmt. “for” votes*, and *Trust* for those countries with available firm-level voting data, data on firm characteristics, and ownership data. *% Votes cast* is the average percentage of votes cast across the various decisions up for voting at a given shareholder meeting. *% Mgmt. “for” votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. *Trust* is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. Panel B shows summary statistics for accounting- and market-based characteristics, ownership characteristics, other firm characteristics and country characteristics at the firm level. Panel C reports summary statistics for different types of proposals, i.e., management- and shareholder-initiated proposals as well as the following four types of management-initiated proposals: *Directors*, *Capitalization*, *M&A*, and *Compensation*. The panel reports the average percentage of votes in support of each type of proposal as well as its number per country. The sample period comprises shareholder meetings from 2013 to 2015, which corresponds to firms’ fiscal years 2012 to 2015. *Avg* stands for average.

**Panel A: Firm-level voting and trust by country**

Country	Trust	% Votes cast		% Mgmt. “for” votes		Observations	
		Mean	Std. Dev	Mean	Std. Dev	Votes cast	Mgmt. “for” votes
Argentina	0.23	85.70	15.30	87.77	10.85	26	24
Australia	0.54	59.78	17.37	93.78	9.67	12	1439
Bahrain	0.34	76.02	19.10	-	-	12	-
Brazil	0.07	68.50	16.96	94.40	10.92	288	30
Bulgaria	0.22	78.67	14.52	83.79	30.94	25	14
Canada	0.42	56.15	20.75	94.57	7.56	497	1923
Chile	0.13	87.98	8.00	94.94	5.71	129	23
China	0.64	50.87	17.46	98.48	6.17	7358	7732
Colombia	0.04	86.73	-	89.81	16.15	1	4
Cyprus	0.09	100.00	-	98.06	2.15	2	3
Estonia	0.40	71.13	6.79	98.70	2.34	21	20
Finland	0.59	54.47	15.72	99.96	0.06	30	3
France	0.19	71.11	18.13	93.00	7.45	610	891
Germany	0.42	70.90	26.70	95.70	9.11	10	36
Hong Kong	0.48	53.76	22.29	96.89	6.83	694	2348
Hungary	0.28	77.79	15.58	92.46	20.17	9	19
India	0.22	70.19	18.44	97.97	5.77	1656	1956
Indonesia	0.43	79.20	10.92	95.92	8.73	555	182
Italy	0.29	63.18	20.35	96.17	8.46	79	108
Japan	0.39	77.24	11.36	95.14	4.36	68	6830
Jordan	0.13	76.31	-	100.00	-	1	7
Kazakhstan	0.39	91.27	4.93	100.00	-	5	1
Kuwait	0.30	80.19	9.66	100.00	-	10	1
Malaysia	0.09	71.05	40.94	95.53	11.01	2	123
Mexico	0.12	87.77	9.00	90.74	11.28	131	8
Morocco	0.13	87.87	-	100.00	-	1	1
Netherlands	0.67	63.39	23.35	95.74	9.07	71	111
New Zealand	0.57	40.77	3.07	98.12	4.09	3	64
Nigeria	0.15	-	-	93.66	4.29	-	3
Norway	0.74	53.79	18.17	96.80	5.27	257	159
Peru	0.08	81.92	0.89	99.16	1.57	2	4
Philippines	0.03	81.61	8.68	96.59	6.80	6	7
Poland	0.23	64.78	18.08	95.72	7.31	79	81
Qatar	0.21	-	-	100.00	-	-	1
Romania	0.07	72.12	17.75	86.53	16.85	69	57
Singapore	0.39	45.59	8.47	96.18	7.35	2	332
Slovenia	0.20	63.37	11.90	96.59	6.92	20	24
South Africa	0.24	74.21	12.70	95.43	4.82	240	329
Spain	0.20	67.62	14.80	95.66	5.15	87	95
Sweden	0.65	64.18	4.15	99.81	0.16	5	4
Switzerland	0.51	68.17	14.99	93.92	8.34	196	246
Thailand	0.33	67.87	14.79	98.78	3.60	102	515
Turkey	0.12	76.50	15.07	98.28	3.40	211	208
United Kingdom	0.30	69.83	15.28	96.83	4.01	327	1512
Vietnam	0.52	78.96	10.30	96.42	6.73	176	167
<b>Avg / Total</b>	<b>0.45</b>	<b>59.34</b>	<b>20.45</b>	<b>96.45</b>	<b>6.52</b>	<b>14,085</b>	<b>27,645</b>

**Panel B: Firm-level summary statistics for control variables**

	p50	p25	p75	Mean	Std. Dev.	N
<i>Firm characteristics:</i>						
3-year avg ROE	0.088	0.029	0.153	0.056	0.333	27,645
Firm age	20.000	13.000	43.000	31.032	26.069	27,645
Leverage	0.177	0.038	0.297	0.202	0.232	27,645
Ln(market cap (\$))	20.280	18.907	21.385	20.144	1.651	27,645
MTB	1.601	0.851	2.778	4.732	57.799	27,645
Special meeting				0.355	0.479	27,645
Stock return	0.152	-0.070	0.480	0.260	0.512	27,645
<i>Ownership characteristics:</i>						
% free float	40.129	25.313	58.719	43.368	24.009	27,645
% shares domestic investors	45.581	21.355	65.209	43.908	26.786	27,645
% shares foreign investors	4.068	0.359	17.055	12.991	19.410	27,645
% shares institutional investors	8.948	2.657	20.088	14.714	17.025	27,645
% shares largest investor	22.649	9.958	42.561	27.987	21.460	27,645
Herfindahl Top 10 investors	767.990	220.133	2,108.062	1,438.584	1,764.147	27,645
Largest investor = bank				0.038	0.192	27,645
Largest investor = corporation				0.562	0.496	27,645
Largest investor = family				0.183	0.386	27,645
Largest investor = government				0.023	0.150	27,645
Largest investor = management				0.012	0.109	27,645
Largest investor = inst. investor				0.182	0.385	27,645
<i>Country characteristics:</i>						
Djankov ADRI	4.000	1.000	4.500	3.372	1.626	25,838
Djankov ASDI	0.653	0.499	0.762	0.661	0.173	25,838
Djankov English				0.350	0.477	25,838
Djankov French				0.364	0.481	25,838
Djankov German				0.285	0.452	25,838
GDP per capita	34,960	5,721	46,466	28,323	21,135	25,838
Market cap/GDP	76.560	56.081	90.292	170.369	298.261	25,838
Rule of law	1.333	-0.334	1.599	0.771	0.958	25,838



**Panel C: Average percentage of votes cast in favor of individual proposals by country**

	Management-initiated proposals by category											
	Management-initiated		Shareholder-initiated		Directors		Capitalization		M&A		Compensation	
	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N	Mean	N
Argentina	88.67	236	-	-	88.68	97	89.43	15	89.78	6	61.57	3
Australia	93.53	7016	40.93	87	94.97	2593	94.91	928	95.63	239	91.28	2956
Brazil	94.37	129	99.90	1	94.94	29	93.48	9	94.66	11	90.10	17
Bulgaria	93.43	96	-	-	93.93	21	-	-	76.83	7	93.00	7
Canada	94.96	14016	13.86	198	95.47	10866	92.49	173	95.61	195	87.33	964
Chile	95.35	131	-	-	95.10	32	92.55	10	92.39	1	-	-
China	98.35	35200	96.89	1702	98.35	6056	96.99	6158	97.45	8212	96.59	678
Colombia	95.53	17	-	-	91.52	4	-	-	66.00	1	-	-
Cyprus	97.81	16	-	-	97.89	3	94.79	1	-	-	88.24	2
Estonia	98.74	80	-	-	98.20	15	99.72	13	-	-	97.43	4
Finland	100.00	24	-	-	99.99	9	100.00	2	-	-	-	-
France	94.21	14487	24.99	50	95.58	2763	94.13	4040	95.52	290	83.12	2082
Germany	96.07	268	99.18	1	96.33	130	92.54	42	98.19	16	95.75	10
Hong Kong	96.87	16608	39.65	13	97.54	5801	94.13	5150	96.78	607	91.75	375
Hungary	96.26	168	57.20	12	96.23	54	91.00	18	100.00	1	96.44	8
India	97.91	11064	99.62	1	97.16	3357	98.55	1341	96.29	1054	96.62	1052
Indonesia	97.06	869	88.74	2	94.84	240	98.68	35	95.43	29	93.29	16
Italy	96.10	452	77.64	75	95.47	127	95.39	68	98.97	5	93.17	102
Japan	94.74	49805	13.45	314	94.63	38164	95.96	128	96.88	2818	92.98	3106
Jordan	100.00	34	-	-	100.00	8	100.00	1	-	-	-	-
Kazakhstan	100.00	2	-	-	-	-	-	-	-	-	-	-
Kuwait	100.00	10	-	-	100.00	3	100.00	1	100.00	1	-	-
Malaysia	96.67	598	98.55	3	95.53	215	96.95	120	98.36	99	93.01	50
Mexico	93.85	92	-	-	98.10	39	96.84	11	99.99	1	99.90	4
Morocco	100.00	8	-	-	100.00	1	100.00	1	99.98	1	-	-
Netherlands	96.22	1026	92.06	2	96.59	436	93.99	290	89.69	5	92.09	41
New Zealand	98.24	254	16.53	9	98.19	144	98.96	4	98.40	2	96.35	39
Nigeria	92.30	21	-	-	94.08	6	81.85	2	86.17	3	-	-
Norway	97.43	1515	44.25	9	96.56	358	96.60	182	99.17	8	94.01	211
Peru	99.72	14	-	-	-	-	98.40	2	-	-	-	-
Philippines	97.61	36	-	-	99.15	14	90.33	2	-	-	-	-
Poland	96.53	567	90.96	10	94.32	173	91.30	19	97.28	13	83.60	4
Qatar	100.00	7	-	-	100.00	1	100.00	2	100.00	1	-	-
Romania	88.66	576	51.89	55	78.53	115	85.26	16	91.42	50	86.45	26
Singapore	97.77	2891	77.01	14	98.37	1083	96.06	535	95.26	180	93.76	191
Slovenia	96.34	118	78.19	15	96.22	60	82.19	5	-	-	-	-
South Africa	96.40	3834	-	-	97.81	1174	93.30	631	97.02	370	88.57	332
Spain	95.57	1240	54.05	11	95.10	426	94.35	169	98.68	23	92.18	167
Sweden	99.73	21	0.66	2	-	-	99.73	8	-	-	99.70	12
Switzerland	95.48	3554	64.21	22	95.13	1696	94.06	106	99.91	5	90.02	316
Thailand	98.80	4247	-	-	97.91	1703	99.07	456	93.68	62	98.79	46
Turkey	98.21	2108	-	-	98.08	631	96.58	23	95.80	16	98.78	184
UK	97.58	20050	32.05	24	98.14	7047	97.49	4084	95.42	256	94.71	2311
Vietnam	97.29	1043	-	-	96.47	244	94.44	69	95.22	31	97.17	18
<b>Avg/Total</b>	<b>96.26</b>	<b>194,548</b>	<b>73.71</b>	<b>2,632</b>	<b>95.82</b>	<b>85,938</b>	<b>95.80</b>	<b>24,870</b>	<b>97.01</b>	<b>14,619</b>	<b>91.55</b>	<b>15,334</b>

**Table 2: Trust and votes cast**

This table reports the results from OLS regressions of % *Votes cast* on *Trust* (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. % *Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. *Trust* is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry-fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French, and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. variables:	% <i>Votes cast</i>			
	(1)	(2)	(3)	(4)
<b>Trust</b>	<b>-41.765***</b> <b>(-32.14)</b>	<b>-35.605***</b> <b>(-23.44)</b>	<b>-31.091***</b> <b>(-6.25)</b>	<b>-41.747***</b> <b>(-6.15)</b>
3-year avg ROE		3.510*** (4.37)	3.261*** (3.94)	3.183*** (3.93)
Firm age		0.039*** (2.98)	0.026* (1.80)	0.027** (1.99)
Leverage		-1.885 (-1.60)	-2.251* (-1.87)	-0.792 (-0.67)
Ln(market cap)		1.517*** (8.61)	2.189*** (10.60)	2.286*** (11.01)
MTB		0.001 (0.66)	0.002 (0.43)	0.001 (0.18)
Special meeting		-4.731*** (-15.09)	-3.774*** (-12.25)	-3.317*** (-11.09)
Stock return		-1.147*** (-3.29)	-0.785** (-2.23)	-0.692** (-1.98)
% free float		-0.256*** (-13.40)	-0.244*** (-12.12)	-0.261*** (-12.94)
% shares foreign investors		0.109*** (8.46)	0.108*** (7.72)	0.107*** (7.64)
% shares institutional investors		-0.243*** (-10.88)	-0.285*** (-11.80)	-0.279*** (-11.50)
% shares largest investor		0.004 (0.09)	0.036 (0.92)	0.031 (0.76)
Herfindahl Top 10 investors		0.001*** (3.52)	0.001*** (3.10)	0.001*** (2.75)
Djankov ADRI			3.319*** (7.57)	-3.268*** (-3.75)
Djankov ASDI			11.228** (2.37)	-5.467 (-0.83)
GDP per capita			0.000** (2.18)	0.000*** (2.65)
Market cap/GDP			-0.011*** (-5.61)	0.007** (2.31)
Rule of law			-1.839 (-1.49)	5.566*** (3.73)
Sub-continent FE	No	No	No	Yes
Djankov legal origin FE	No	No	Yes	Yes
Largest investor type FE	No	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	20,716	14,085	13,383	13,383
Adjusted R-squared	0.219	0.406	0.431	0.455

**Table 3: Trust and management “for” votes**

This table reports the results from OLS regressions of % Mgmt. “for” votes on Trust (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. % Mgmt. “for” votes is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. Trust is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry-fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French, and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. Variables:	% Mgmt. “for” votes			
	(1)	(2)	(3)	(4)
<b>Trust</b>	<b>5.723***</b> <b>(18.50)</b>	<b>4.332***</b> <b>(10.07)</b>	<b>4.929***</b> <b>(4.19)</b>	<b>12.809***</b> <b>(9.02)</b>
3-year avg ROE		0.399*** (2.75)	-0.004 (-0.02)	-0.025 (-0.18)
Firm age		-0.009*** (-4.21)	-0.000 (-0.03)	0.003 (1.15)
Leverage		0.057 (0.11)	-0.361 (-0.75)	-0.481 (-1.01)
Ln(market cap)		0.135*** (3.78)	-0.023 (-0.60)	-0.048 (-1.28)
MTB		0.000 (0.59)	-0.000 (-0.13)	-0.000 (-0.10)
Special meeting		-0.300*** (-2.73)	-0.725*** (-6.41)	-0.718*** (-6.25)
Stock return		0.406*** (4.76)	0.377*** (4.47)	0.403*** (4.82)
% Free float		-0.034*** (-8.90)	-0.022*** (-5.61)	-0.022*** (-5.76)
% shares foreign investors		-0.022*** (-7.34)	-0.016*** (-5.02)	-0.017*** (-5.38)
% shares institutional investors		-0.035*** (-7.32)	-0.041*** (-7.06)	-0.039*** (-6.56)
% shares largest investor		0.005 (0.75)	0.003 (0.38)	0.002 (0.26)
Herfindahl Top 10 investors		0.000 (1.01)	0.000* (1.79)	0.000* (1.91)
Djankov ADRI			-0.050 (-0.27)	0.897*** (3.78)
Djankov ASDI			-1.104 (-1.32)	3.300*** (2.61)
GDP per capita			-0.000*** (-2.92)	-0.000*** (-4.75)
Market cap/GDP			0.001** (2.13)	-0.004*** (-4.24)
Rule of law			-0.522 (-1.37)	0.241 (0.53)
Sub-continent FE	No	No	No	Yes
Djankov legal origin FE	No	No	Yes	Yes
Largest investor type FE	No	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	39,436	27,645	25,838	25,838
Adjusted R-squared	0.024	0.051	0.083	0.091

**Table 4: The relation between trust, monitoring, and firm performance**

This table reports the OLS regression results of *Stock return* and *Tobin's Q* on *Trust*, *Low votes cast*, and the interaction term *Trust \* Low votes cast* (columns (1) to (4)). This table also reports the OLS regression results of *Stock return* and *Tobin's Q* on *Trust*, *High mgmt. "for" votes*, and the interaction term *Trust \* High mgmt. "for" votes* (columns (5) to (8)). All regressions include firm characteristics, ownership characteristics, and country characteristics as control variables. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. The regressions shown in columns (2), (4), (6) and (8) additionally include country fixed effects. *High mgmt. "for" votes* is an indicator variable, which takes the value 1 if % *Mgmt. "for" votes* is larger than its sample median value. *Low votes cast* is an indicator variable, which takes the value 1 if % *Votes cast* is smaller than its sample median value. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry-fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French, and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. variables:	% Votes cast				% Mgmt. "for" votes			
	Stock return <sub>t+1</sub>		Tobin's Q <sub>t+1</sub>		Stock return <sub>t+1</sub>		Tobin's Q <sub>t+1</sub>	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Trust	0.445*** (4.09)		1.131*** (4.10)		0.357*** (4.46)		0.643*** (3.60)	
Low votes cast	-0.115*** (-3.05)	-0.118*** (-3.20)	-0.353*** (-4.43)	-0.386*** (-4.85)				
<b>Trust * Low votes cast</b>	<b>0.226*** (3.16)</b>	<b>0.211*** (2.98)</b>	<b>0.862*** (5.10)</b>	<b>0.864*** (5.07)</b>				
High mgmt. "for" votes					-0.105*** (-4.39)	-0.083*** (-3.39)	-0.125** (-2.38)	-0.187*** (-3.41)
<b>Trust * High mgmt. "for"</b>					<b>0.338*** (6.56)</b>	<b>0.296*** (5.65)</b>	<b>0.775*** (6.76)</b>	<b>0.881*** (7.43)</b>
<b>Country FE</b>	No	<b>Yes</b>	No	<b>Yes</b>	No	<b>Yes</b>	No	<b>Yes</b>
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Djankov legal origin dummies	Yes	No	Yes	No	Yes	No	Yes	No
Largest investor dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	13,376	13,376	13,537	13,537	25,826	25,826	25,777	25,777
Adj. R-squared	0.138	0.165	0.297	0.314	0.112	0.137	0.251	0.253

### **Table 5: Instrumental variable (IV) regressions**

This table reports the coefficients from instrumental variable regressions. Specifications (1) and (3) show the results from the first-stage regressions. Following Putnam (1993), La Porta et al. (1997), and Zak and Knack (2001), we instrument *Trust* with *% Roman Catholic* (Panel A) and with *% Hierarchical religion* (Panel B). We use *Roman Empire* an alternative instrument (Panel C). *% Roman Catholic* is the proportion of people who consider themselves as Roman Catholics. *% Hierarchical religion* is the proportion of people who consider themselves as Roman Catholic or Eastern Orthodox or Muslim. The indicator variable *Roman Empire* equals one for countries that were part of the Roman Empire, and zero otherwise. Specifications (2) and (4) in all three panels report the second-stage results, with *Trust* being instrumented by the proportion of people who consider themselves Roman Catholics (Panel A), the proportion of people who consider themselves as Roman Catholic or Eastern Orthodox or Muslim (Panel B), or with the countries that were part of the Roman Empire. The instrumented *Trust* variable is denoted *Trust (IV)*. *% Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. *% Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

**Panel A: % Roman Catholic**

Dep. variables:	First Stage	Second Stage	First Stage	Second Stage
	Trust	% Votes cast	Trust	% Mgmt. "for" votes
	(1)	(2)	(3)	(4)
<b>% Roman Catholic</b>	<b>-0.421***</b> <b>(-17.37)</b>		<b>-0.396***</b> <b>(-20.98)</b>	
<b>Trust (IV)</b>		<b>-53.382***</b> <b>(-4.08)</b>		<b>9.085***</b> <b>(3.71)</b>
3-year avg ROE	-0.002 (-1.05)	3.179*** (3.94)	-0.001 (-1.12)	-0.027 (-0.19)
Firm Age	0.000** (2.07)	0.025* (1.80)	0.000 (0.18)	0.002 (0.94)
Leverage	0.007** (2.48)	-0.717 (-0.60)	0.005*** (2.65)	-0.456 (-0.96)
Ln(market cap)	0.000 (0.02)	2.279*** (10.98)	0.000 (1.38)	-0.045 (-1.21)
MTB	0.000 (0.46)	0.001 (0.25)	-0.000 (-0.53)	-0.000 (-0.11)
Special meeting	-0.009*** (-9.01)	-3.383*** (-10.96)	-0.008*** (-8.95)	-0.740*** (-6.38)
Stock return	-0.001** (-2.00)	-0.705** (-2.03)	-0.001*** (-3.00)	0.397*** (4.73)
% free float	-0.000** (-2.37)	-0.262*** (-13.00)	-0.000 (-1.02)	-0.023*** (-5.83)
% shares foreign investors	0.000 (1.41)	0.107*** (7.69)	0.000 (1.59)	-0.017*** (-5.37)
% shares institutional investors	0.000** (2.50)	-0.276*** (-11.28)	0.000*** (3.11)	-0.038*** (-6.44)
% shares largest investor	-0.000** (-2.35)	0.030 (0.73)	-0.000 (-0.78)	0.001 (0.20)
Herfindahl Index Top 10 Investors	0.000 (0.86)	0.001*** (2.75)	-0.000 (-0.26)	0.000* (1.91)
Djankov ADRI	-0.089*** (-12.24)	-4.352*** (-2.91)	-0.112*** (-18.95)	0.455 (1.31)
Djankov ASDI	0.170*** (3.36)	-3.951 (-0.60)	-0.057* (-1.69)	2.752** (2.07)
GDP per capita	0.000*** (16.52)	0.000** (2.29)	0.000*** (20.65)	-0.000** (-2.51)
Market cap/GDP	0.000*** (11.39)	0.008** (2.36)	0.000*** (28.79)	-0.003** (-2.38)
Rule of Law	-0.070*** (-6.95)	4.885*** (3.08)	-0.069*** (-6.32)	-0.083 (-0.16)
Sub-continent FE	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Kleibergen-Paap F-statistic	301.61		129.83	
Ratio Trust (IV) / Trust		1.28		0.71
Observations	13,383	13,383	25,838	25,838
Adj. R-squared	0.976	0.457	0.966	0.093

**Panel B: % Hierarchical religion**

Dep. variables:	First Stage	Second Stage	First Stage	Second Stage
	<b>Trust</b>	<b>% Votes cast</b>	<b>Trust</b>	<b>% Mgmt. “for” votes</b>
	(1)	(2)	(3)	(4)
<b>% Hierarchical religion</b>	<b>-0.253***</b> <b>(-10.89)</b>		<b>-0.321***</b> <b>(-24.39)</b>	
<b>Trust (IV)</b>		<b>-126.439***</b> <b>(-6.70)</b>		<b>16.389***</b> <b>(4.85)</b>
Firm controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Kleibergen-Paap F-statistic	118.57		186.24	
Ratio Trust (IV) / Trust		3.03		1.30
Observations	13,383	13,383	25,838	25,838
Adj. R-squared	0.971	0.434	0.964	0.093

**Panel C: Roman Empire (European countries only)**

Dep. variables:	First Stage	Second Stage	First Stage	Second Stage
	<b>Trust</b>	<b>% Votes cast</b>	<b>Trust</b>	<b>% Mgmt. “for” votes</b>
	(1)	(2)	(3)	(4)
<b>Roman Empire</b>	<b>-0.216***</b> <b>(-7.14)</b>		<b>-0.176***</b> <b>(-10.68)</b>	
<b>Trust (IV)</b>		<b>-45.182**</b> <b>(-2.19)</b>		<b>22.071***</b> <b>(2.68)</b>
Firm controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Kleibergen-Paap F-statistic	51.02		114.06	
Ratio Trust (IV) / Trust		1.45		4.48
Observations	1,398	1,398	1,746	1,746
R-squared	0.993	0.509	0.986	0.099

**Table 6: Terrorist attacks as transitory negative shocks to trust**

This table reports the results from OLS regressions of *% Votes cast* and *% Mgmt. “for” votes* on different measures of terrorist attacks. Following Ahern (2018), we use terrorist attacks as exogenous shocks that cause a temporary reduction in trust in others. We define shareholder meetings as treated if a terrorist attack took place within one month before the meeting date, which mitigates concerns that institutional or economic responses to terrorism cause our results. *Terror* is an indicator variable that equals one if there was a terrorist attack with at least one fatality within one month of the shareholder meeting (i.e., both AGM and special meeting) in the respective company’s country of headquarters. *Terror*  $\geq 10$  *fatalities* is an indicator variable that equals one if there was a terrorist attack with at least ten fatalities within one month of the shareholder meeting in the respective company’s country of headquarters. *Terror*  $\geq 25$  *fatalities* is an indicator variable that equals one if there was a terrorist attack with at least 25 fatalities within one month of the shareholder meeting in the respective company’s country of headquarters. *Terror*\**ln(# fatalities)* is an interaction term of the variable *Terror* with the number of people that died in the respective terrorist attack (fatalities). *% Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. *% Mgmt. “for” votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year-, industry-, and country-fixed effects. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

**Terrorist attacks within one month before the shareholder meeting**

Dep. Variables	% Votes cast				% Mgmt. “for” votes			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Terror</b>	<b>0.417</b> <b>(1.40)</b>				<b>-0.232**</b> <b>(-2.31)</b>			
<b>Terror <math>\geq 10</math> fatalities</b>		<b>0.868**</b> <b>(2.30)</b>				<b>-0.292**</b> <b>(-2.40)</b>		
<b>Terror <math>\geq 25</math> fatalities</b>			<b>0.967*</b> <b>(1.95)</b>				<b>-0.615***</b> <b>(-3.42)</b>	
<b>Terror*ln(# fatalities)</b>				<b>0.160**</b> <b>(2.54)</b>				<b>-0.052**</b> <b>(-2.46)</b>
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	20,716	20,716	20,716	20,716	39,436	39,436	39,436	39,436
Adjusted R-squared	0.025	0.025	0.025	0.025	0.003	0.003	0.003	0.003



**Table 7: Controlling for confidence in institutions**

This table reports the results from OLS regressions of % Votes cast (columns (1) to (5)) and % Mgmt. “for” votes (columns (6) to (10)) on Trust, firm characteristics, ownership characteristics, and country characteristics and three different measures for peoples’ confidence in institutions (i.e., Confidence in companies, Confidence in press and Confidence in government). Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. % Votes cast is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. % Mgmt. “for” votes is the average percentage of votes cast in support of management-initiated proposals for a given fiscal year. Trust is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. Residual trust is the residual of an unreported regression from trust on Confidence in companies, Confidence in press and Confidence in government. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include sub-continent-, year- and industry-fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. variables	% Votes cast					% Mgmt. “for” votes				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<b>Trust</b>	<b>-30.439***</b> (-4.57)	<b>-30.583***</b> (-4.21)	<b>-38.472***</b> (-5.58)	<b>-25.182***</b> (-3.60)		<b>12.303***</b> (8.77)	<b>12.042***</b> (7.78)	<b>12.414***</b> (8.34)	<b>12.212***</b> (7.92)	
<b>Residual trust</b>					<b>-23.138***</b> (-3.54)					<b>9.488***</b> (6.27)
Confidence in companies	-37.681*** (-8.22)			-31.051*** (-6.24)		4.999** (2.08)			5.109* (1.96)	
Confidence in government		-15.682*** (-6.49)		-9.768*** (-2.88)			0.783 (1.28)		0.385 (0.33)	
Confidence in press			-14.109*** (-3.92)	-1.262 (-0.28)				0.930 (1.19)	-0.702 (-0.44)	
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	13,383	13,383	13,383	13,383	13,383	25,838	25,838	25,838	25,838	25,838
Adjusted R-squared	0.460	0.458	0.456	0.462	0.451	0.092	0.091	0.091	0.092	0.089

**Table 8: Controlling for trust in investors' home countries**

This table reports the results from OLS regressions of % Votes cast and % Mgmt. "for" votes on Avg trust foreign investors (i.e., the stock ownership-weighted average trust level of the countries where a firm's foreign shareholders are headquartered) and Trust (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. % Votes cast is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. % Mgmt. "for" votes is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. Trust is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry-fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French, and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. variables	% Votes cast		% Mgmt. "for" votes	
	(1)	(2)	(3)	(4)
<b>Trust</b>		<b>-41.372***</b> <b>(-6.04)</b>		<b>12.718***</b> <b>(9.00)</b>
<b>Avg trust foreign investors</b>	<b>-3.481</b> <b>(-1.52)</b>	<b>-3.816</b> <b>(-1.62)</b>	<b>0.567</b> <b>(1.04)</b>	<b>0.601</b> <b>(1.11)</b>
3-year avg ROE	3.772*** (4.65)	3.319*** (4.00)	0.020 (0.14)	-0.015 (-0.10)
Firm age	0.044*** (3.45)	0.031** (2.26)	0.003 (1.36)	0.003 (1.39)
Leverage	-0.731 (-0.66)	-0.498 (-0.40)	-0.343 (-0.73)	-0.537 (-1.07)
Ln(market cap)	2.148*** (10.39)	2.217*** (10.48)	-0.033 (-0.85)	-0.040 (-1.03)
MTB	0.003 (1.26)	0.000 (0.08)	-0.001 (-0.61)	-0.000 (-0.10)
Special meeting	-2.778*** (-9.13)	-3.307*** (-10.55)	-0.991*** (-8.34)	-0.732*** (-6.04)
Stock return	-0.799** (-2.21)	-0.897** (-2.46)	0.413*** (4.83)	0.404*** (4.77)
% free float	-0.249*** (-12.26)	-0.253*** (-12.19)	-0.026*** (-6.69)	-0.025*** (-6.41)
% shares foreign investors	0.101*** (7.48)	0.108*** (7.76)	-0.017*** (-5.24)	-0.018*** (-5.44)
% shares institutional investors	-0.273*** (-11.37)	-0.260*** (-10.61)	-0.041*** (-7.01)	-0.040*** (-6.81)
% shares largest investor	0.046 (1.24)	0.028 (0.69)	0.001 (0.12)	0.002 (0.29)
Herfindahl Top 10 investors	0.001*** (3.06)	0.001*** (2.99)	0.000 (1.54)	0.000 (1.62)
Djankov ADRI	0.525 (0.82)	-3.122*** (-3.55)	-0.878*** (-5.37)	0.819*** (3.54)
Djankov ASDI	-11.017** (-2.38)	-4.393 (-0.66)	-1.095 (-1.11)	2.883** (2.32)
GDP per capita	-0.000*** (-5.35)	0.000** (2.49)	-0.000 (-0.06)	-0.000*** (-4.82)
Market cap/GDP	0.003 (1.02)	0.006** (2.04)	0.001** (2.25)	-0.004*** (-4.37)
Rule of law	7.882*** (5.84)	5.645*** (3.73)	-0.389 (-1.07)	0.301 (0.66)
Sub-continent FE	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	12,670	12,202	24,024	24,295
Adjusted R-squared	0.445	0.452	0.078	0.091

**Table 9: Controlling for additional firm-specific corporate governance variables**

This table reports the results from OLS regressions of % Votes cast and % Mgmt. “for” votes on Trust (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. The regressions additionally include the variables ESG rating (columns (1) and (6)), ISS recommendation (columns (2), (5), (7) and (10)), CEO total compensation (columns (3), (5), (8) and (10)) and CEO cash/total compensation (columns (4), (5), (9) and (10)). % Votes cast is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. % Mgmt. “for” votes is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. Trust is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry-fixed effects. The large investor type dummies are bank, corporation, family, government, institutional shareholder and management. Legal origins are English, French, and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. variables	% Votes cast					% Mgmt. “for” votes				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<b>Trust</b>	<b>-30.847***</b> (-3.50)	<b>-41.677***</b> (-6.14)	<b>-40.541***</b> (-5.26)	<b>-40.109***</b> (-5.11)	<b>-42.239***</b> (-5.43)	<b>4.636*</b> (1.75)	<b>11.540***</b> (8.31)	<b>8.394***</b> (4.42)	<b>7.664***</b> (4.09)	<b>7.890***</b> (4.21)
ESG rating	-0.017 (-0.46)					0.011 (1.27)				
ISS recommendation		-0.219 (-0.34)			-0.097** (-2.45)		6.340*** (15.83)			0.032*** (3.08)
CEO total compensation			0.000 (0.62)		0.000 (0.58)			0.000 (1.16)		0.000 (0.45)
CEO cash/total compens.				-0.582 (-0.29)	-0.278 (-0.13)				-0.704* (-1.68)	-0.611 (-1.38)
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,397	13,383	4,320	4,143	4,143	3,282	25,838	9,565	9,276	9,276
Adjusted R-squared	0.372	0.455	0.323	0.335	0.336	0.058	0.134	0.072	0.076	0.076

**Table 10: Sub-sample analysis**

This table reports the results from OLS regressions of % *Mgmt. “for” votes* and % *Votes cast on Trust* (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics and country characteristics for sub-samples based on the median of firm size and firm age. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. % *Mgmt. “for” votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. % *Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. *Trust* is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include sub-continent-, year- and industry-fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French and German. Below each sub-sample analysis, hypothesis tests for equality of coefficients are reported. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

**Firm size and firm age**

	% Votes cast				% Mgmt. “for” votes			
	(1) Large	(2) Small	(3) Old	(4) Young	(5) Large	(6) Small	(7) Old	(8) Young
<b>Trust</b>	<b>-35.256***</b> (-3.86)	<b>-47.912***</b> (-4.89)	<b>-37.272***</b> (-4.22)	<b>-41.344***</b> (-3.91)	<b>9.605***</b> (5.27)	<b>16.334***</b> (7.34)	<b>9.610***</b> (3.73)	<b>15.606***</b> (7.34)
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,696	6,687	6,942	6,441	12,919	12,919	13,797	12,041
Adjusted R-squared	0.525	0.414	0.516	0.379	0.108	0.083	0.104	0.081
Trust <sub>Sample A</sub> = Trust <sub>Sample B</sub>	z-test	p-value	z-test	p-value	z-test	p-value	z-test	p-value
	0.945	0.345	0.296	0.767	-2.339	0.019	-1.795	0.073

## Appendices

### Appendix A: Variable definitions

Accounting, ownership, and stock price data is from Thomson Reuters Eikon. Voting data is from ISS Voting Analytics.

Variable	Definition
<b><u>Trust variables:</u></b>	
Avg trust foreign investors	Weighted average of the level of trust that prevails in the countries where a firm's largest foreign investors are headquartered. Foreign investors among a firm's top 50 investors are considered. The weighted average is calculated using the percentage of shares held by each investor as the respective weights. (Sources: Eikon and WVS)
Trust	Proportion of people in a country agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. (Source: WVS)
<b><u>Voting variables:</u></b>	
# shareholder proposals	Number of proposals initiated by shareholders at a given shareholder meeting
% Mgmt. "against" votes	Average percentage of votes cast against management-initiated proposals at a given shareholder meeting.
% Mgmt. "for" votes	Average percentage of votes cast in support of the firm's management-initiated proposals at a given shareholder meeting.
% Mgmt. "for" votes adj. for 50 largest investors' ownership	Average percentage of votes cast in support of the firm management's recommendations at a given shareholder meeting minus the percentage of shares held by top 50 investors.
% Votes cast	Average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting.
% Votes cast adj. for 50 largest investors' ownership	Average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting minus the percentage of shares held by the top 50 investors.
Capitalization	Average percentage of votes cast in support of the firm management's recommendations with respect to capitalization-related agenda items at a given shareholder meeting.
Compensation	Average percentage of votes cast in support of the firm management's recommendations with respect to compensation-related agenda items at a given shareholder meeting.
Directors	Average percentage of votes cast in support of the firm management's recommendations with respect to director-related agenda items at a given shareholder meeting.
Dissent	Indicator variable, which equals one if the variable <i>% Mgmt. "for" votes</i> takes a value in the first quartile of its distribution.
High mgmt. "for" votes	Indicator variable, which takes the value one if <i>% Mgmt. "for" votes</i> is larger than its sample median value, and zero otherwise.
Low votes cast	Indicator variable, which takes on the value one if <i>% Votes cast</i> is lower than its sample median value, and zero otherwise.
M&A	Average percentage of votes cast in support of the firm management's recommendations with respect to M&A-related agenda items at a given shareholder meeting.
Mgmt. proposal rejected	Indicator variable which equals one if one management-initiated proposal received less than 50% of votes cast at a given shareholder meeting.
<b><u>Firm and governance variables:</u></b>	
% free float	The percentage of shares not held by the top 50 largest investors, defined as the difference between 100% and the percentage of shares held by the top 50 largest investors for a given fiscal year.
% shares domestic investors	The percentage of shares held by domestic investors for a given fiscal year.
% shares foreign investors	The percentage of shares held by foreign investors for a given fiscal year.
% shares institutional investors	The percentage of shares held by institutional investors for a given fiscal year winsorized at the 1st and 99th percentiles.
% shares largest investor	The percentage of shares held by the largest investor.

3-year avg ROE	Three-year average return on equity, defined as net income divided by book value of equity for a given fiscal year winsorized at the 1st and 99th percentiles.
CEO cash/total compensation	The fraction of cash to total compensation of a firm's CEO. (Source: Capital IQ)
CEO total compensation	The total compensation of the firm's CEO. (Source: Capital IQ)
ESG rating	A firm's rating based on environmental, social and governance variables (Source: Eikon).
Firm age	The number of years since IPO for a given fiscal year.
Herfindahl top 10 investors	Herfindahl index based on the company's top 10 investors for a given fiscal year.
High free float (Low free float)	Indicator variable, which takes the value one if free float is larger (lower) than its sample median value, and zero otherwise.
Large (Small)	Indicator variable, which takes the value one if Ln(market cap) is larger (lower) than its sample median value, and zero otherwise.
Largest investor = bank	Indicator variable equal to one if the largest investor is a bank for a given fiscal year, and zero otherwise.
Largest investor = corporation	Indicator variable equal to one if the largest investor is a corporation for a given fiscal year, and zero otherwise.
Largest investor = family	Indicator variable equal to one if the largest investor is a family for a given fiscal year, and zero otherwise.
Largest investor = government	Indicator variable equal to one if the largest investor is a government agency for a given fiscal year, and zero otherwise.
Largest investor = inst. investor	Indicator variable equal to one if the largest investor is an institutional investor for a given fiscal year, and zero otherwise.
Largest investor = management	Indicator variable equal to one if the largest investor is an insider for a given fiscal year, and zero otherwise.
Leverage	The company's total debt divided by its total assets for a given fiscal year winsorized at the 5th and 95th percentiles.
Ln(market cap)	Natural logarithm of the company's total market capitalization (in \$) for a given fiscal year. Total market capitalization (in \$) is winsorized at the 5th and 95th percentiles.
MTB	Market-to-book ratio, defined as market capitalization divided by book value of equity for a given fiscal year winsorized at the 5th and 95th percentiles.
Old (Young)	Indicator variable, which takes the value one if firm age is larger (lower) than its sample median value, and zero otherwise.
Special meeting	Indicator variable equal to one if the shareholders' vote in a special meeting, and zero otherwise.
Stock return	The company's stock market return for a given fiscal year winsorized at the 5th and 95th percentiles.
Tobin's Q	The company's market capitalization plus book value of total debt divided by the book value of total assets, winsorized at the 5th and 95th percentiles.
<b><u>Country variables:</u></b>	
Confidence in companies	Average response to how much confidence people have in the country's major companies based on the following Likert scale: 1: None at all, 2: Not very much, 3: Quite a lot, 4: A great deal. (Source: WVS; the order of the original Likert scale has been reversed to facilitate the interpretation of the results)
Confidence in government	Average response to how much confidence people have in the country's government based on the following Likert scale: 1: None at all, 2: Not very much, 3: Quite a lot, 4: A great deal. (Source: WVS; the order of the original Likert scale has been reversed to facilitate the interpretation of the results)
Confidence in press	Average response to how much confidence people have in the country's press based on the following Likert scale: 1: None at all, 2: Not very much, 3: Quite a lot, 4: A great deal. (Source: WVS; the order of the original Likert scale has been reversed to

	facilitate the interpretation of the results)
Djankov ADRI	Anti-director rights index. (Source: Djankov et al., 2008)
Djankov ASDI	Anti-self-dealing index. (Source: Djankov et al., 2008)
Djankov English	Indicator variable equal to one if the company's country of headquarters is of English legal origin, and zero otherwise. (Source: Djankov et al., 2008)
Djankov France	Indicator variable equal to one if the company's country of headquarters is of French legal origin, and zero otherwise. (Source: Djankov et al., 2008)
Djankov German	Indicator variable equal to one if the company's country of headquarters is of German legal origin, and zero otherwise. (Source: Djankov et al., 2008)
GDP per capita	Country of headquarters' gross domestic product (GDP) per capita. (Source: World Bank World Development Indicators)
Market cap/GDP	Market capitalization as a percentage of the country's GDP for a given fiscal year. (Source: World Bank World Development Indicators)
Rule of law	Measures the extent to which agents have confidence in the quality of contract enforcement, property rights, the police, and the courts. (Source: World Bank)
Stock market participation	Domestic investors' participation rates per country (based on Giannetti and Koskinen, 2010).
<b><i>Instrumental variables:</i></b>	
% Hierarchical religion	Proportion of people who consider themselves Roman Catholic, Muslim or Orthodox. (Source: WVS)
% Roman Catholic	Proportion of people who consider themselves Roman Catholics. (Source: WVS)
Roman Empire	Indicator variable equals one for countries that were part of the Roman Empire, and zero otherwise. Only used for European countries.
Terror	Indicator variable, which takes on the value one if a terror attack occurred within one month before the shareholder meeting (at least 1, 10, 25 deaths, respectively). (Source: the University of Maryland's Global Terror Database)

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## Appendix B: Alternative measures of shareholder dissent

This table reports results from OLS regressions of the variables *Dissent*, *% Mgmt. “against” votes*, *Mgmt. proposal rejected* and *# shareholder proposals* on *Trust* (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. *Dissent* is an indicator variable, which equals one if the variable *% Mgmt. “for” votes* takes a value in the first quartile of its distribution. *% Mgmt. “against” votes* is the average percentage of votes cast against the management’s recommendations at a given shareholder meeting. *Mgmt. proposal rejected* is an indicator variable, which equals one if at least one management proposal received less than 50% of the votes cast at a given shareholder meeting. *# shareholder proposals* is the number of proposals initiated by shareholders at a given shareholder meeting. *Trust* is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

	<b>% Mgmt. “against” votes</b>	<b>Dissent</b>	<b>Mgmt. proposal rejected</b>	<b># shareholder proposals</b>
	(1)	(2)	(3)	(4)
<b>Trust</b>	<b>-11.942***</b> (-7.02)	<b>-0.999***</b> (-10.79)	<b>-0.317***</b> (-7.02)	<b>-0.192***</b> (-3.32)
Firm controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	17,682	25,838	25,838	32,582
Adjusted R-squared	0.077	0.170	0.085	0.030



### Appendix C: Management “for” votes by type of voted proposal

This table reports the results from OLS regressions of average % *Mgmt. “for” votes* with respect to different types of management-initiated proposals on *Trust* (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. % *Mgmt. “for” votes* is the average (if there is more than one proposal per type) percentage of votes cast in support of management-initiated proposals for a given shareholder meeting. *Trust* is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. variables:	Directors	Capitalization	M&A	Compensation
	(1)	(2)	(3)	(4)
<b>Trust</b>	<b>6.561***</b> <b>(4.40)</b>	<b>10.361***</b> <b>(4.61)</b>	<b>6.102</b> <b>(1.15)</b>	<b>29.946***</b> <b>(7.15)</b>
Firm controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	18,027	8,470	9,512	7,495
Adjusted R-squared	0.084	0.125	0.013	0.146

## Appendix D: Blockholder-adjusted votes cast and management for votes

This table reports OLS regression results of % Mgmt. “for” votes adjusted for blockholder ownership and % Votes cast adjusted for blockholder ownership on Trust (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. % Mgmt. “for” votes is the average percentage of votes cast in support of management-initiated proposals minus the percentage of votes held by blockholders at a given shareholder meeting. % Votes cast is the average percentage of votes cast irrespective of the concrete voting decision minus the percentage of votes held by blockholders at a given shareholder meeting. Trust is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year- and industry fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Legal origins are: English, French and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5% and 10% level, respectively.

Dep. variables:	% Votes cast adjusted for blockholder ownership			% Mgmt. “for” votes adjusted for blockholder ownership		
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Trust</b>	<b>-19.594***</b> (-9.65)	<b>-10.530**</b> (-2.15)	<b>-21.511***</b> (-3.06)	<b>4.222***</b> (12.95)	<b>4.913***</b> (5.22)	<b>11.918***</b> (10.19)
Sub-continent FE	No	No	Yes	No	No	Yes
Country controls	No	Yes	Yes	No	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,266	4,889	4,889	26,713	25,016	25,016
Adjusted R-squared	0.579	0.592	0.604	0.954	0.955	0.956

# **Internet Appendix**

for

## **Trust and Shareholder Voting**

Simon Lesmeister, Peter Limbach, and Marc Goergen

This internet appendix includes additional results that are briefly discussed in the main paper, but are not reported there for space reasons. The contents are as follows:

### **Table IA.1 - Pairwise correlations:**

Our variable of interest, *Trust*, correlates significantly with the variable *Firm age* (0.23), the Djankov et al. (2008) dummies for English (-0.24) and French (0.23) legal origin, and the ASDI index (0.26). The only high pairwise correlation, -0.64, is between *Trust* and the ADRI index. This strongly negative correlation is consistent with Aghion et al. (2010) who find a highly negative correlation between trust in others and government regulation for a cross-section of countries comparable to ours. The negative correlation makes it very unlikely that the negative relation between trust and shareholder voting behavior reflects better legal shareholder protection.

### **Table IA.2 to Table IA.13 - Standard errors clustered at the country level:**

We re-estimate all regressions shown in Table 2 to Table 10 and Appendix B to Appendix D of this paper using standard errors clustered at the country level (instead of the firm level). The results are qualitatively similar.

### **Table IA.14 to Table IA.15 - Regressions on annual level:**

We re-estimate the regressions shown in column (4) of Table 2 and Table 3 separately for each sample year. The results remain statistically significant for each annual regression.

### **Table IA.16 to Table IA.23 - Results for Europe only and results excluding Scandinavia:**

To further mitigate concerns that our results might be driven by specific countries or unobserved country-specific heterogeneity, we limit our sample to European countries, or alternatively exclude

Scandinavian countries, and re-estimate the regressions shown in Table 2 and Table 3 of this paper. By focusing on Europe, our tests consider one geographic region with similar laws pertaining to corporations and shareholder voting, comparable economies and economic policies, and a joint history. Hence, we reduce country-specific heterogeneity and exclude various countries that might drive our results. We exclude the Scandinavian countries to rule out that these high-trust countries drive our results. The results remain qualitatively unchanged.

**Table IA.24 and IA.25 - Controlling for Hofstede measures:**

We re-estimate the regressions shown in column (4) of Table 2 and Table 3 adding an additional control for Hofstede's power distance index (Hofstede, 2001) to take into account that corporate governance can be less stringent in more hierarchical countries as suggested by Urban (2018). While power distance and trust tend to have a negative relation, our results could be driven by a hierarchical high-trust country like China. We also control for Hofstede's individualism measure, which tends to be positively related to trust and which might reinforce the free-rider problem of voting leading to a lower percentage of votes cast. The results are robust to including these controls.

**Table IA.26 - Controlling for stock market participation:**

We address the concern that trust might affect shareholder voting only because it affects stock market participation (as shown by Guiso, Sapienza, and Zingales, 2008b) and, hence, the fraction of less sophisticated (retail) investors who tend to monitor less. Specifically, we re-estimate the regressions shown in column (4) of Table 2 and Table 3 of this paper and additionally control for stock market participation. Data on stock market participation is obtained from Giannetti and Koskinen (2010). The results are robust to controlling for stock market participation.

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D-50923 cologne  
fon +49(0)221-470-6995  
fax +49(0)221-470-3992  
kempf@cfr-cologne.de  
www.cfr-cologne.de