

# Trust and Shareholder Voting

Finance Working Paper N° 569/2018

July 2018

**Simon Lesmeister**

University of Cologne and Centre for Financial  
Research (CFR)

**Peter Limbach**

University of Cologne and Centre for Financial  
Research (CFR)

**Marc Goergen**

Cardiff University and ECGI

© Simon Lesmeister, Peter Limbach and Marc Goergen 2018. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

This paper can be downloaded without charge from:  
[http://ssrn.com/abstract\\_id=3216765](http://ssrn.com/abstract_id=3216765)

[www.ecgi.org/wp](http://www.ecgi.org/wp)

ECGI Working Paper Series in Finance

## Trust and Shareholder Voting

Working Paper N° 569/2018

July 2018

Simon Lesmeister

Peter Limbach

Marc Goergen

We are grateful to seminar participants at the University of Wuppertal and the CFR Research Seminar for their helpful comments.

© Simon Lesmeister, Peter Limbach and Marc Goergen 2018. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

## Abstract

We test the hypothesis that a specific aspect of culture – trust in others – affects shareholder voting behavior as it lowers investors' concerns of being expropriated. 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 is higher. Shocks to trust and IV regressions support this result. 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 exploit low levels of monitoring less when trust is high.

---

Keywords: Culture, Monitoring, Shareholder expropriation, Shareholder voting, Trust

JEL Classifications: G3, G19, G32

Simon Lesmeister

Research Assistant

University of Cologne, Department of Business Administration and Finance

Universitätsstraße 24

50923 Cologne, Germany

phone: +49 221 470 6968

e-mail: lesmeister@wiso.uni-koeln.de

Peter Limbach

Assistant Professor

University of Cologne, Department of Business Administration and Finance

Universitätsstraße 24

50923 Cologne, Germany

phone: +49 221 470 6966

e-mail: plimbach@wiso.uni-koeln.de

Marc Goergen\*

Professor of Finance

Cardiff University, Cardiff Business School

Colum Drive

Cardiff, CF10 3 EU, United Kingdom

phone: +44 29 2087 6450

e-mail: GoergenM@cardiff.ac.uk

\*Corresponding Author

# Trust and Shareholder Voting

Simon Lesmeister and Peter Limbach

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

Marc Goergen

*Cardiff University and European Corporate Governance Institute (ECGI)*

## Abstract

We test the hypothesis that a specific aspect of culture – trust in others – affects shareholder voting behavior as it lowers investors’ concerns of being expropriated. 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 is higher. Shocks to trust and IV regressions support this result. 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 exploit low levels of monitoring less when trust is high.

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

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

We are grateful to seminar participants at the University of Wuppertal and the CFR Research Seminar for their helpful comments.

Simon Lesmeister and Peter Limbach are with the University of Cologne and the Centre for Financial Research (CFR), Albertus-Magnus-Platz, 50923 Cologne, Germany (email: [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 Cardiff University (Cardiff Business School, Colum Drive, CF10 3EU Cardiff, United Kingdom) and the European Corporate Governance Institute (ECGI, Brussels, Belgium) (email: [GoergenM@cardiff.ac.uk](mailto:GoergenM@cardiff.ac.uk)).

## Introduction

There is an extensive literature in economics and other social sciences, which studies the impact of culture<sup>1</sup> on human and organizational behavior. In contrast, only few papers in finance have investigated the effects of culture on financial, investment, and monitoring decisions made by individuals and corporations (see Karolyi, 2016, for an overview). Although sparse, this literature tends to agree that culture needs to be considered when attempting to explain cross-country differences in corporate finance and governance (e.g., Licht, Goldschmidt, and Schwartz, 2005). Our paper extends this literature by examining how the level of trust in other people that prevails in a country affects shareholder voting and ultimately corporate performance.

La Porta et al. (1997, p.333) define trust as “*a propensity of people in a society to cooperate to produce socially efficient outcomes and to avoid inefficient noncooperative traps*”. Within a principal-agent setting characterized by the separation of ownership and control under asymmetric information, the level of trust that prevails may be important. Knack and Keefer (1997) and Zak and Knack (2001) theorize that trust in others is a substitute for costly monitoring, which improves economic performance. While in low-trust environments economic agents spend more time monitoring each other, agents in high-trust environments are able to spend more of their time on production rather than on costly monitoring. Zak and Knack’s (2001) model has direct implications for corporate governance: shareholders will spend less time monitoring the management of their investee companies in countries with high levels of trust. Further, Francois and Zabojsnik (2005), Guiso, Sapienza, and Zingales (2008), and Li, Massa, and Zhang (2017) argue that trust mitigates

---

<sup>1</sup> We adopt the definition of culture as in Guiso, Sapienza, and Zingales (2006, p.23): culture is “those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation”.

(investors') concerns about being expropriated.<sup>2</sup> Importantly, although trust can be exploited, there are psychological and social costs from cheating, such as guilt and shame or ostracism and more direct punishment by others (Knack and Keefer, 1997; Francois and Zabojnik, 2005; Anderlini and Terlizzese, 2017), which can sustain trust as an equilibrium (e.g., Anderlini and Terlizzese, 2017). Hence, it may be rational to trust more and monitor less.

In this study, we perform a direct and novel test of the Zak and Knack (2001) theoretical prediction that high levels of country trust reduce the amount of time economic agents spend on monitoring. More specifically, we focus on the relation between country trust and shareholder voting, which is the most direct manifestation of shareholders' residual rights vis-à-vis the company. Their votes enable shareholders to vote for or against the appointment or re-appointment of members to the board of directors as well as other voted proposals at the annual general shareholders' meeting (AGM) or a special shareholders' meeting. Empirical evidence suggests that voting is an effective governance mechanism around the world (Iliev et al., 2015) and that voting rights are valuable (Zingales, 1994, 1995; Dyck and Zingales, 2004; Kalay, Karakas, and Pant, 2014). However, 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.<sup>3</sup> Hence, for some shareholders the costs from monitoring or voting might exceed the benefits. As a result, such shareholders might rely on other shareholders to monitor management. Under certain circumstances, this well-known free-rider problem (Grossman and Hart, 1980) might result in

---

<sup>2</sup> 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.

<sup>3</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. Consistently, Iliev et al. (2015) find that shareholder dissent is larger when the risk of expropriation is higher. Our empirical tests account for this risk.

insufficient monitoring of management, which ultimately would result in lower firm performance and value. We argue that the negative effect of the lack of monitoring will be mitigated in high-trust countries where managers are less likely to act against the interests of shareholders (due to the costs of cheating mentioned before).

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. Based on the above discussion, we formulate the following three hypotheses. We expect that trust in others affects the monitoring intensity as measured by shareholder voting. Following the literature (e.g., Knack and Keefer, 1997; La Porta et al., 1997; Zak and Knack, 2001; Guiso, Sapienza, and Zingales, 2008), we measure trust via data from the World Values Survey (WVS). We expect that:

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

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

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

*H3: The negative effects of a lack of shareholder engagement are cancelled out in high-trust countries.*

This paper finds consistent evidence that shareholder monitoring intensity is lower in high-trust countries. In particular, we find that the percentage of votes cast decreases with trust whereas the percentage of votes in support of management increases with trust. This is the case even after controlling for a large number of firm, ownership, and country characteristics and sub-continent-fixed effects. Results are economically meaningful. An increase in trust by one standard deviation

is associated with a decrease in votes cast of 8.5 percentage points (or 40% of a standard deviation) and a reduction in the likelihood of shareholder dissent (= % votes in support of management  $\leq$  p25) of 15 percent. 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. This result indicates that, on average, managers do not exploit lower levels of monitoring in high-trust environments, consistent with high trust being an equilibrium phenomenon.<sup>4</sup>

Our empirical results are supported by several identification tests. First, they are upheld when we control for prevailing levels of confidence in companies, the government, and the press. Second, they are supported by instrumental variables regressions in which we instrumentalize trust by the share of people who are Roman Catholics or, more generally, who belong to a hierarchical religion, in line with Putnam (1993) and La Porta et al. (1997) who argue that, historically, these religions have undermined the development of trust among people. Alternatively, we use the Roman Empire, i.e., the major historical force for the dissemination of Roman Catholicism and strong legislation in Europe, as an instrument for trust and find our results to be upheld. Third, consistent with Ahern (2018), we use terror attacks shortly prior to firms' shareholder meetings as transitory shocks to trust. We find that the short-term reduction in trust caused by terror attacks is associated with more votes cast at shareholder meetings and fewer votes casts in support of management. Finally, we find that the impact of trust on shareholder voting is more pronounced in firms that are subject to greater asymmetric information (i.e., smaller and younger firms), for which the costs of monitoring or informed voting may be more expensive.

---

<sup>4</sup> The results on the value of voting dependent on prevailing trust levels is robust to the inclusion of country-fixed effects, which can be added to the model when the time-invariant trust measure is interacted with voting measures.



This paper contributes to three strands of the literature. First, it contributes to the literature on culture, social capital, and corporate governance, particularly to the literature that links trust to economic outcomes such as economic performance (e.g., Knack and Keefer, 1997; La Porta et al., 1997; Zak and Knack, 2001). While this literature argues that trust in others allows to spend more time on production rather than monitoring, none of the existing studies directly tests this channel of economic output. Our study is the first to provide direct empirical support for it. Our study also extends the sparse literature on the impact of culture on governance. In this context, Urban (2017) provides evidence that in more hierarchical countries the CEO turnover-performance sensitivity is lower. Our results are robust to controls for country-level power distance (Hofstede, 2001) and focus on voting, i.e., direct monitoring by shareholders, instead of delegated monitoring by the board of directors, which is responsible for firing the CEO.

Second, our study contributes to the emerging literature on shareholder voting behavior, which explains differences in voting across countries and companies. The two studies closest to ours are Iliev et al. (2015) and Van der Elst (2011). Using a sample of non-U.S. firms from 43 countries, the former find 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 there is more dissent voting when shareholders are more likely to be expropriated, in line with the results of our study. While Iliev et al. (2015) focus on legal and firm-specific determinants of votes cast by U.S. institutional investors, Van der Elst (2011) focuses on the concentration of control rights and different shareholder groups as determinants of voter turnout in Europe. Our study complements this evidence. Taking all these determinants into account, we provide evidence that culture, i.e., trust in others, affects the voting behavior by shareholders not limited to U.S. institutional investors.

Finally, our paper also contributes to the intersection of the above two strands of literature by providing evidence that while a lower (higher) percentage of votes cast (votes in support of management) reduces future firm performance and value, this negative effect is cancelled out for high-trust countries. This evidence suggests that the costs and benefits of monitoring depend on the level of trust that prevails in a country. Our study thereby contributes to the literature on optimal levels of monitoring intensity. This literature has focused on optimal board monitoring (e.g., Duchin, Matsusaka, and Ozbas, 2010; Faleye, Hoitash, and Hoitash, 2011), whereas our study allows to draw inferences with regard to the optimal level of shareholder monitoring via voting.

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

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

### **1.1 Data Sources and Sample Selection**

We use a cross-country panel of firms that comprises information about shareholder voting behavior and firm, ownership, and country characteristics. We obtain voting data from the ISS Voting Analytics database, which covers voting results of shareholder meetings starting with the year 2013. We use information from shareholder meetings taking place between 2013 and 2015.<sup>5</sup>

---

<sup>5</sup> Trust, or culture in general, is persistent over time, as its formation can be 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, e.g., Guiso, Sapienza, and Zingales, 2006, 2016). 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. In unreported tests, 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.

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 the Thomson Reuters Eikon database, which includes accounting, ownership, and stock price data.

ISS Voting Analytics distinguishes between management-initiated proposals and shareholder-initiated proposals. Unless otherwise specified, we focus on the former in what follows. We focus on management-initiated proposals for two reasons. First, we are interested in the support, or absence thereof, managers receive from the shareholders. Second, management-initiated proposals constitute the vast majority of proposals (see Panel C of Table 1). Overall, our sample consists of 194,548 management-initiated proposals with information on “for” votes, i.e., votes exercised in favor of these management-initiated proposals. We aggregate proposal-level data for each meeting and we have data for 27,645 meetings with information on average management “for” votes and firm-level characteristics for 9087 individual firms from 44 different countries. Information 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>6</sup>

We use control variables based on country-level data from 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 information on votes in support of

---

<sup>6</sup> We have information 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.

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.

## 1.2 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 three main dependent variables are *% Votes cast*, *% Mgmt. “for” votes* and *Dissent*. *% 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 per meeting. Additionally, we classify management proposals by their type (director, capitalization, M&A, and compensation related proposals), as per Iliev et al. (2015). *Dissent* is an indicator variable, which equals one if the variable *% Mgmt. “for” votes* takes a value in the first quartile of its sample distribution, and zero otherwise.

Our main explanatory variable of interest is *Trust*. In line with the economics literature (e.g., Knack and Keefer, 1997; La Porta et al., 1997; Zak and Knack, 2001; Guiso, Sapienza, and Zingales, 2004, 2008, 2009), we obtain this measure from WVS. 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 WVS question measures 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; McEvily et al., 2006), which is different from personalized 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 trusting behavior (e.g., Guiso, Sapienza, and Zingales, 2008; 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 3-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 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 and 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, 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 very persistent over time and time-invariant over our sample period, 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 could impact shareholder voting, we also estimate regressions in which we additionally control for sub-continent-fixed effects.<sup>7</sup> Following Iliev et al. (2015), regressions are estimated at the firm level where the dependent variable is *% Mgmt. "for" votes*.<sup>8</sup> We use a linear probability model (LPM) if the dependent variable is *Dissent*. As a robustness check, we use two-stage least squares (2SLS) regressions. We instrumentalize trust by the percentage of Roman Catholics in each country (based on Putnam, 1993) and, alternatively, the percentage of people in each country that follow a hierarchical religion, i.e., the percentage of people that are Roman Catholic, Eastern Orthodox, or Muslim (see, e.g., La Porta et al., 1997; Zak and Knack, 2001). In addition, based on Ahern (2018) who provides arguably causal evidence that terrorism reduces trust, we use terror attacks prior to shareholder meetings as transitory shocks to trust. All regressions are estimated with standard errors clustered at the firm level. When we re-estimate all regressions using standard errors clustered at the country level, all of our results remain statistically significant as shown in the Internet Appendix.

---

<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, Caribbean Islands. Our results remain qualitatively similar when we use more or less granular regional clusters (e.g., continents or smaller sub-continent definitions) in unreported regressions.

<sup>8</sup> We estimate the equivalent regressions (not reported) at the proposal level rather than the firm level. The results are qualitatively similar.

### 1.3 Summary Statistics

Table 1 shows summary statistics for trust by country- and firm-level voting (Panel A), the control variables (Panel B), and 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 mean of 45%, ranges from a minimum of 4% for Columbia 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 voting turnout reported in Van der Elst (2011). Finally, the average percentage of votes in support of management, which has a 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>

[Insert Table 1 About Here]

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. In terms of 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. In terms of the type of the largest investor, other corporations are the most frequent type and are present in the majority of firms (56%). The second

---

<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.

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%), or the management (1%) are only rarely the largest investor. Observations from firms headquartered in countries with English, French, and German law account for 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).

Panel C of Table 1 shows the average percentage of votes in favor of the various types of proposals. The table distinguishes between management-initiated and shareholder-initiated proposals. Most proposals (i.e., a total of 195,217 or 98.7%) are of the former type. Following Iliev et al. (2015), the table 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).<sup>10</sup> Almost half of the management-initiated proposals are director-related proposals. Across all four categories, the cross-country average percentage of votes in favor ranges from a low of 91.53% to a high of 95.82%.

Finally, we briefly discuss the pairwise correlations between our variable of interest, *Trust*, and the control variables (see Section 1.2). These correlations are not tabulated for brevity. While the correlations are generally moderate, *Trust* correlates significantly with *Firm age* (0.23), the Djankov et al. (2008) legal origin dummies for English (-0.24) and French (0.23) legal origin, and

---

<sup>10</sup> See Appendix A of Iliev et al. (2015) for further details.



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, but also trust in political institutions and corporations, and government regulation for a cross-section of countries comparable to ours. This evidence makes it very unlikely that any negative relation between trust and shareholder voting behavior reflect better legal shareholder protection.

### **3. Empirical Results**

In Section 3.1, we present the results of empirical analyses that test the hypothesis that greater levels of country trust have a negative impact on shareholder monitoring intensity as reflected by their voting behavior. Section 3.2 provides empirical evidence on the firm performance and firm value implications of the relation between trust and shareholder voting.

#### **3.1 Trust and Shareholder Voting**

The first step in our empirical analysis is to consider the country-level relation between trust and the two average shareholder voting measures. The evidence shown in Figure 1 suggests that there is a relation between trust and shareholder voting for the country-level data. More specifically, Figure 1a plots the average percentage of votes cast in each of the 47 countries with available data for country trust. The figure suggests a negative relation between the two variables, with countries with high levels of trust having lower average percentages of votes cast at their shareholder meetings. Figure 1b plots the average percentage of votes in support of management per country against country trust for 46 countries. The relation between the two is positive with the percentage of votes in support of management increasing with country trust. Unreported multivariate country-level regressions provide further empirical support for the aforementioned relations.

The second step consists of estimating multivariate firm-level regressions of the shareholder voting measures on our variable of interest, *Trust*, as well as the control variables. Table 2 contains the results for the regressions explaining the percentage of votes cast (*% Votes cast*). The regression in column (1) includes *Trust* as well as year- and industry-fixed effects. The regressions shown 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) additionally 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 magnitude, 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), depending on the regression model.

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. However, contrary to expectations, the Djankov et al. (2008) ADRI and ASDI have a significantly positive effect on the percentage of votes cast.

[Insert Table 2 About Here]

Table 3 reports the results for the regressions explaining the percentage of votes in support of management (*% Mgmt. "for" votes*). The first four columns in Table 3 are equivalent to the four columns in Table 2 for the percentage of votes in support of management. In addition, column (5) includes an LPM regression explaining the likelihood of the percentage of votes in support of management being in the first quartile of the distribution (*Dissent*). As per Hypothesis 2, in 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 LPM regression results in column (5), which suggest that the likelihood of voter dissent is significantly lower for firms from high-trust countries. It is also supported by the evidence presented in Appendix B, which shows the results of regressions similar to those in columns (1) to (4) of Table 3, but with the percentage of votes against management (*% Mgmt. "against" votes*) as the dependent variable. We find that trust reduces the percentage of votes against management. In terms of economic magnitude, an increase in *Trust* by one standard deviation is associated with a decrease in the likelihood for shareholder dissent (*Dissent*) of 15% and a decrease in *% Mgmt. "for" votes* of 10 to 30 percent of a standard deviation.

As to the control variables, the percentage of votes in support of management increases with the stock return and ROE, but decreases with the free float as well as with the percentages of ownership of foreign and institutional investors. Support for management is also lower at special shareholder meetings. The results from the regression explaining *Dissent* support these findings.<sup>11</sup>

---

<sup>11</sup> In unreported regressions, we re-estimate the regression models shown in Table 2 and Table 3 and additionally control for Hofstede's power distance index (Hofstede, 2001) to take into account that corporate governance can be

[Insert Table 3 About Here]

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. The rationale for adjusting the dependent variables is that, in contrast to small shareholders, large investors are much more likely to exercise their votes. They may also be directly involved in the management of the firm as this is often the case in, e.g., family firms. Appendix C reports the regression results. We still find that trust has a negative effect (significant at the 5% level or better) on the percentage of votes cast and a positive effect (significant at the 1% level) on the percentage of votes in support of management.

We also re-estimate the regressions shown in Table 2 and Table 3 for a sample limited to European countries as well as for a sample excluding Scandinavian countries. By focusing on Europe, our tests are based on one geographic region with similar legislation 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 findings. The results of these tests are reported in Tables IA.11 to IA.18 of the Internet Appendix. Our results remain qualitatively unchanged in both tests.

The analysis in Appendix D focuses on explaining the support management obtains for the four main types of management-initiated proposals. The regressions, which are estimated at the

---

less stringent in more hierarchical countries as suggested by Urban (2017). 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. Our results are robust to including these controls.

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)).<sup>12</sup> 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.

### 3.2 Implications for Monitoring Intensity and Firm Performance

The results presented in Section 3.1 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 managers act trustworthily to avoid the costs of cheating (including potential labor market consequences). More generally, does the optimal monitoring intensity, in terms of voting behavior, depend on prevailing levels of trust and does it matter for firm performance?

We expect that a low percentage of votes cast and too little dissent with firm management reflect a lack of monitoring of management 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 environments in which managers are more likely to act in the interest

---

<sup>12</sup> The results from Appendix D are upheld when the standard errors are clustered by meeting rather than by firm.

of 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*. An econometric benefit of this analysis is that the aforementioned interactions allow us to control for country-fixed effects to account for time-invariant heterogeneity across countries. We present the results of regressions estimated with and without country-fixed effects.

[Insert Table 4 About Here]

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) who report that trust improves the performance of large organizations, we find that trust has a significant (at the 1% level) and positive effect on firm performance and value. As expected, the percentage of votes cast being low has a significant (at the 1% level) and negative effect on both firms' stock performance and value and the percentage of votes in support of management has a significant (at the 1% level) and negative effect on stock performance. This result suggests that a lack of shareholder engagement, likely reflecting 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 coefficient 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.<sup>13</sup> All results remain qualitatively unchanged 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 country-specific heterogeneity.<sup>14</sup>

The results in Table 4 indicate that the negative effects of low monitoring are mitigated or even equalized in high-trust countries. Specifically, the negative effect of *Low votes cast* is equalized 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 equalized 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 the lower levels of shareholder monitoring in high-trust countries, consistent with the costs of cheating sustaining a trust equilibrium as theorized in the literature. 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 does not only have costs but also benefits (see, e.g., Sah and Stiglitz, 1986; Adams, Almeida, and Ferreira, 2005). Hence, we conclude that the optimal intensity of shareholder monitoring depends on the level of trust that prevails in a country.

---

<sup>13</sup> The negative coefficient on *High mgmt. "for" votes* could be due to family firms where the family shareholders are likely to cast votes supporting the management (which could be part of the family). When we exclude observations relating to firms whose largest investor is a family firm we still obtain a significant and negative coefficient.

<sup>14</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 our results in Table 4 are not driven by a correlation between *Trust* and the two indicator variables for low monitoring intensity. Another test consists of re-estimating the regressions in Table 4 with various measures of management compensation as the dependent variable to mitigate concerns that our findings are driven by an unobserved relation between trust and compensation, which might affect managerial incentives to perform. The results, shown Table IA.19 and Table IA.20 of the Internet Appendix, suggest that trust and management compensation do not significantly correlate.

## 4. Robustness

In this section, we conduct a number of empirical tests that address potential endogeneity concerns in order to verify the causal link between shareholder voting and trust.

### 4.1 Type of Trust

It could be the case that our variable of interest, *Trust*, which measures trust in strangers, proxies for trust (or confidence) in specific institutions or, to the very least, it could be correlated with the latter type of trust. Put differently, trust in specific institutions could act as a substitute for governance mechanisms, including shareholder voting. If so, the latter type of trust 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 (individually as well as jointly) three 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, i.e., ADRI, ASDI, legal origin, and rule of law, already included in our regressions). 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>15</sup> We use the country average of the score for each of these three levels of confidence.

[Insert Table 5 About Here]

We present our regression results in Table 5. Columns (1) to (4) show the results of the regressions explaining the percentage of votes cast (*% Votes cast*) whereas columns (5) to (8) show the results of the regressions explaining the percentage of votes in support of the firm’s 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 controls in the regression explaining the percentage of votes cast (see column (4)) whereas confidence in companies is the only weakly significant one explaining the percentage of votes in support of management (see column (8)). The results remain virtually unchanged when we estimate the same regressions without sub-continent-fixed effects, except for the coefficient on confidence in the press, which becomes significantly positive when used to explain the percentage of votes in support of management. These results make intuitively sense as high confidence in companies is expected to reduce voter turnout whereas, if trust in the press is high, shareholders will likely have access to objective quality information via the press on their firm and will therefore find it easier and less costly to decide whether to support management or not.

---

<sup>15</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.).

## 4.2 Instrumental Variables Regressions

Thus far, we cannot rule out that trust correlates with an unobserved factor that drives voting behavior. As the unobserved factor would then be part of the error term, thereby invalidating the main assumption behind regression analysis that the error term is a white noise, our regression results might be spurious rather than reflecting an actual causal relation between voting behavior and country trust. We address this concern, as well as the concern of measurement error, by instrumentalizing *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 (Putnam, 1993; La Porta et al., 1997).

[Insert Table 6 About Here]

Table 6 reports the results of the first- and second-stage regressions of the 2SLS approach we perform. 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 our instruments are statistically significant at the 1% level and negatively correlated with trust in the first-stage regressions (see columns (1) and (3) of 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  $Trust (IV)/Trust$ , i.e., the ratio of the IV to OLS estimates (Jiang, 2017), support the quality of our instrumental variables approach. All these results remain qualitatively identical when we estimate the 2SLS regressions without sub-continent-fixed effects.

We use an alternative instrumental variables regression approach for robustness. Instead of using Roman Catholicism (or hierarchical religions) 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*.<sup>16</sup> Panel C of Table 6 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 2SLS approach supports our previous results.

---

<sup>16</sup> Another reason for the negative effect of *Roman Empire* on *Trust*, consistent with Aghion et al. (2010), is that the strong legal/institutional system in the Roman Empire hampered the development of trust as it served as a substitute.

### 4.3 Terror Attacks as Transitory Shocks to Trust

Another attempt to verify the causal link between shareholder voting and trust consists of using terrorist attacks as transitory shocks to trust in strangers. In this regard, Ahern (2018) argues that terrorism has an impact on people's economic behavior primarily via a psychological channel. He provides arguably causal evidence that (large) terror attacks lead to a temporary decline in trust. Accordingly, we use terror attacks shortly prior to shareholder meetings (both AGMs and special meetings) as negative shocks to trust. Given that terror attacks are surprise events and arguably unrelated to the characteristics of individual firms, these tragic events cause plausibly exogenous variation in trust levels in the affected countries (after controlling for country-fixed effects).

We obtain information on terror attacks (country and date of the attack, fatalities) for all countries in our sample from the Global Terrorism Database provided by the University of Maryland. We only consider terror attacks with at least one fatality. In line with existing studies documenting very short-lived effects of terror on capital markets (e.g., Chen and Siems, 2004) and economic agents such as sell-side equity analysts (Antoniou, Kumar, and Maligkris, 2018), we focus on the short-term effects of terror attacks on shareholder voting behavior. Specifically, in Table 7 we define a firm's shareholder meeting as treated if it is held within one month of a terror attack taking place in the country where the firm is headquartered. The respective treatment indicator variable is denoted *Terror*. The two alternative treatment indicator variables, *Terror 10 fatalities* and *Terror 25 fatalities*, equal one if a terror attack with at least 10 or at least 25 fatalities, respectively, took place in the firm's country of headquarter in the month before the firm's shareholder meeting. One by one, we regress *% Votes cast*, *% Mgmt. "for" votes*, and *Dissent* on the aforementioned treatment indicator variables as well as country-fixed effects, industry-fixed effects, and year-fixed effects. If terror is indeed a transitory shock to trust, we expect to find a

positive (negative) regression coefficient on *Terror* and the other treatment indicators when used to explain *% Votes cast* and *Dissent (% Mgmt. “for” votes)*.

[Insert Table 7 About Here]

The results in Table 7 support our expectations. The coefficients on *Terror* (columns (1), (4), and (7)), *Terror 10 fatalities* (columns (2), (5), and (8)), and *Terror 20 fatalities* (columns (3), (6), and (9)) are all statistically significant and all have the expected sign.<sup>17</sup> Furthermore, consistent with terror leading to a short-term reduction in trust, we find that the treatment effect, as reflected by the magnitude of the regression coefficients on the terror indicator variables, increases with the number of fatalities caused by the terror attacks. In unreported regressions, we find that the natural logarithm of the number of fatalities (i.e.,  $Terror * \ln(fatalities)$ ) has significant explanatory power for shareholder voting behavior. In additional unreported regressions, in which we use three months after a terror attack as the treatment period, we find only the coefficients on *Terror 10 fatalities* and/or *Terror 20 fatalities* to be statistically significant, consistent with terror causing indeed only a short-term reduction in trust, which depends on the severity of a terror attack.

#### 4.4 Sub-sample Analysis

Finally, we analyze sub-samples to provide evidence on the heterogeneity of the effect of trust on shareholder voting. As trust is more likely to matter in situations characterized by greater asymmetry of information (see, e.g., La Porta et al., 1997), we conduct a sub-sample analysis whereby we distinguish between (1) large firms and small firms (based on market capitalization)

---

<sup>17</sup> We note that people’s fear of repeated terror in their country can have a negative effect on voter turnout after terror attacks as people might avoid any kind of public meetings. This effect runs against us finding a significant coefficient on *Terror* when used to explain *% Votes cast*.

and (2) old and young firms. The sub-samples for (1) and (2) are based on the sample median of the measure used. The results are presented in Table 8.

[Insert Table 8 About Here]

While we find that trust matters in all sub-samples for both the percentage of votes cast and the percentage of votes in favor of management, we find that the coefficient on *Trust* is greater (in absolute value) for smaller and younger firms. The coefficients on *Trust* are also significantly different from each other, as indicated by the z-test, for the regressions explaining the percentage of votes cast in support of management. These results are in line with our expectations and suggest that the effect of trust on the voting behavior of shareholders is more pronounced for firms with higher levels of asymmetric information, for which the costs of monitoring or informed voting may be more expensive. This evidence suggests that the effect of trust does not only vary across countries, but also across firms within in a given country.

## **5. Conclusion**

This paper is one of the few studies in finance, which investigates the effects of culture on investor decisions. Specifically, we study how trust in others affects shareholder voting behavior, i.e., the percentage of votes cast at shareholder meetings and the percentage of votes in support of management proposals. In line with extant literature, we expect that in high-trust countries shareholders are less concerned about being expropriated and therefore spend less time on monitoring their investments. Hence, we expect country trust to reduce the percentage of votes cast at shareholder meetings and to increase the percentage of votes for management. To the best of our knowledge, this is the first study on the effects of trust on shareholder voting.

We find consistent evidence that country trust reduces the percentage of votes cast at shareholder meetings while it increases 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 the use of the exogenous component of country trust and terror attacks as transitory shocks to prevailing levels of trust. We also find that the negative effect of low levels of shareholder monitoring is cancelled out in high-trust countries, i.e., shareholder monitoring is more valuable in low-trust environments. This implies that shareholders in high-trust countries can be less concerned about being expropriated and hence spend less time monitoring the management of their investee firms, consistent with trust being an equilibrium phenomenon.

Our study has major policy implications. First, it provides information on the conditions in which shareholder participation is higher. This is important information for regulators intend on increasing minority shareholder involvement in publicly listed firms. Second, our study also provides information on when shareholder monitoring, i.e., shareholder voting, is more likely to create value.

## References

- Adams, R.B., Almeida, H., Ferreira, D. (2005). Powerful CEOs and their impact on corporate performance. *Review of Financial Studies* 18, 1403-1432.
- Aghion, P., Algan, Y., Cahuc, P., Shleifer, A. (2010). Regulation and Distrust. *Quarterly Journal of Economics* 125, 1015-1049.
- Ahern, K.R. (2018). The importance of psychology in economic activity: Evidence from terrorist attacks. Working paper, University of Southern California.
- Allen, F. (2005). Corporate governance in emerging economies. *Oxford Review of Economic Policy* 21, 164-177.
- Anderlini, L., Terlizzese, D. (2017). Equilibrium trust. *Games and Economic Behavior* 102, 624-644.
- Antoniou, C., Kumar, A., Maligkris, A. (2018). Terrorist attacks, analyst sentiment, and earnings forecasts. Working paper, University of Warwick and University of Miami.
- Cai, J., Garner, J.L., Walkling, R.A. (2009). Electing Directors. *Journal of Finance* 64, 2389-2421.
- Chen, A.H., Siems, T.F. (2004). The effects of terrorism on global capital markets. *European Journal of Political Economy* 20, 349-366.
- Correa, R., Lel, U. (2016). Say on pay laws, executive compensation, pay slice, and firm valuation around the world. *Journal of Financial Economics* 122, 500-520.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., Shleifer, A. (2008). The law and economics of self-dealing. *Journal of Financial Economics* 88, 430-465.
- Duchin, R., Matsusaka, J.G., Ozbas, O. (2010). When are outside directors effective? *Journal of Financial Economics* 96, 195-214.
- Dyck, A., Zingales, L. (2004). Private benefits of control: An international comparison. *Journal of Finance* 59, 537-600.
- Dyck, A., Volchkova, N., Zingales, L. (2008). The corporate governance role of the media: Evidence from Russia. *Journal of Finance* 63, 1093-1135.
- Faleye, O., Hoitash, R., Hoitash, U. (2011). The costs of intense board monitoring. *Journal of Financial Economics* 101, 160-181.
- Francois, P., Zabochnik, J. (2005). Trust, social capital, and economic development. *Journal of the European Economic Association* 3, 51-94.
- Greif, A. (1993). Contract enforceability and economic institutions in early trade: The Maghribi Traders' Coalition. *American Economic Review* 83, 525-548.
- Grossman, S., Hart, O. (1980). Takeover bids, the free-rider problem, and the theory of the corporation. *Bell Journal of Economics* 11, 42-64.
- Guiso, L., Sapienza, P., Zingales, L. (2004). The role of social capital in financial development. *American Economic Review* 94, 526-556.
- Guiso, L., Sapienza, P., Zingales, L. (2006). Does culture affect economic outcomes? *Journal of Economic Perspectives* 20, 23-48.
- Guiso, L., Sapienza, P., Zingales, L. (2008). Trusting the stock market. *Journal of Finance* 63, 2557-2600.
- Guiso, L., Sapienza, P., Zingales, L. (2009). Cultural biases in economic exchange. *Quarterly Journal of Economics* 124, 1095-1131.
- Guiso, L., Sapienza, P., Zingales, L. (2016). Long-term persistence. *Journal of the European Economic Association* 14, 1401-1436.
- Hofstede, G. (2001). Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations. Second ed., Sage Publications, Beverly Hills, CA.

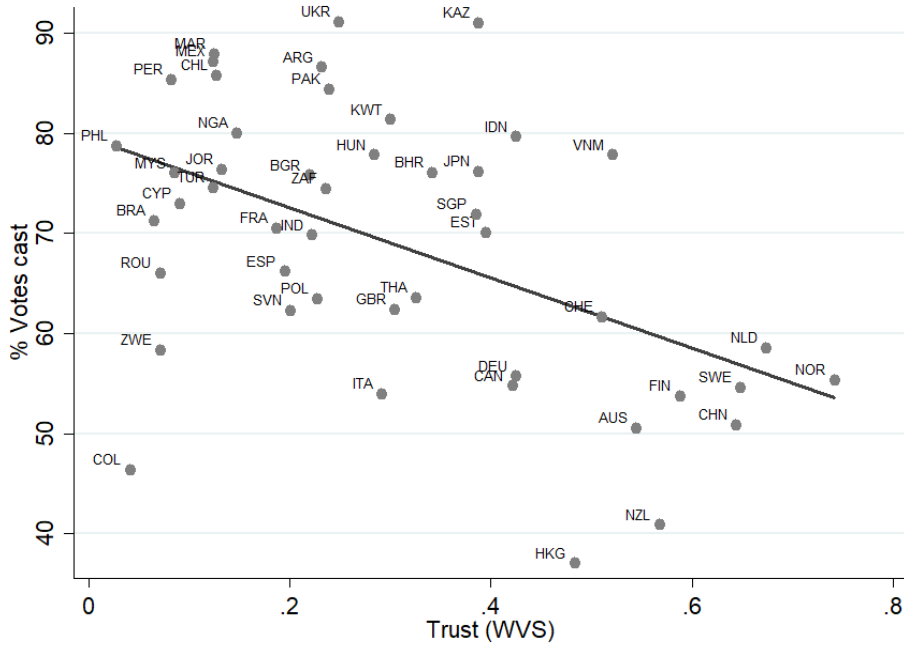


- Iliev, P., Lins, K.V., Miller, D.P., Roth, L. (2015). Shareholder voting and corporate governance around the world. *Review of Financial Studies* 28, 2167-2202.
- Jiang, W. (2017). Have instrumental variables brought us closer to the truth. *Review of Corporate Finance Studies* 6, 127-140.
- Kalay, A., Karakaş, O., Pant, S. (2014). The market value of corporate votes: Theory and evidence from option prices. *Journal of Finance* 69, 1235-1271.
- Karolyi, G.A. (2016). The gravity of culture for finance. *Journal of Corporate Finance* 41, 610-625.
- Knack, S. and P. Keefer (1997). Does Social Capital Have an Economic Payoff? A Cross-country Investigation. *Quarterly Journal of Economics* 112, 1251-1288.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R. (1997). Trust in large organizations. *American Economic Review Papers & Proceedings* 87, 333-338.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R.W. (1998). Law and finance. *Journal of Political Economy* 106, 1113-1155.
- Li, J., Massa, M., Zhang, H. (2017). Can social trust mitigate the disposition effect? INSEAD Working Paper No. 2016/86/FIN.
- Licht, A.N., Goldschmidt, C., Schwartz, S.H. (2005). Culture, law, and corporate governance. *International Review of Law and Economics* 25, 229-255.
- McConnell, J.J., Liu, B. (2013). The role of the media in corporate governance: Do the media influence managers' capital allocation decisions? *Journal of Financial Economics* 110, 1-17.
- McEvily, B., Weber, R.A., Bicchieri, C., Ho, V. (2006). Can groups be trusted? An experimental study of collective trust, in *The Handbook of Trust Research*, Bachmann, R. and Zaheer, A., eds. (Northampton, MA: Edward Elgar).
- Putnam, R.D. (1993). *Making Democracy Work. Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press).
- Sah R.K., Stiglitz, J.E. (1986). The architecture of economic systems: Hierarchies and polyarchies. *American Economic Review* 76, 716-727.
- Sapienza, P., Toldra-Simats, A., Zingales, L. (2013). Understanding trust. *Economic Journal* 123, 1313-1332.
- Urban, D. (2017). The effects of culture on CEO power: International evidence from executive turnover. Working paper, Technical University of Munich.
- Van der Elst, C. (2011). Revisiting shareholder activism at AGMs: Voting determinants of large and small shareholders. ECGI Finance Working Paper No. 311/2011.
- Zak, P.J., Knack, S. (2001). Trust and growth. *Economic Journal* 111, 295-321.
- Zingales, L. (1994). The value of the voting right: A study of the Milan stock exchange experience. *Review of Financial Studies* 7, 125-148.
- Zingales, L. (1995). What determines the value of corporate votes? *Quarterly Journal of Economics* 110, 1047-1073.

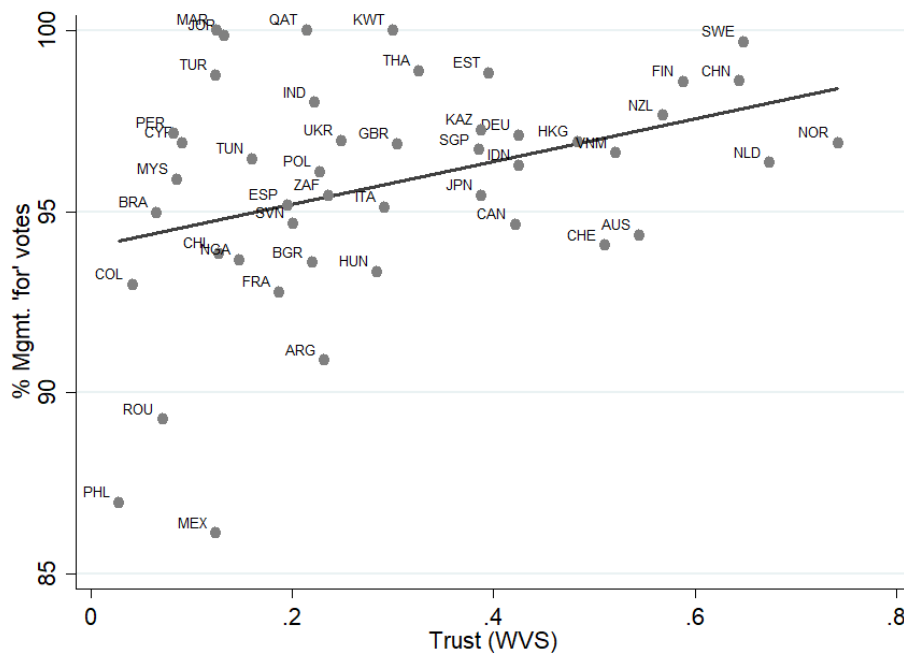
### Figure 1: Trust and shareholders' voting behavior per country

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> (-32.14)	<b>-35.605***</b> (-23.44)	<b>-31.091***</b> (-6.25)	<b>-41.747***</b> (-6.15)
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 dummies	No	No	Yes	Yes
Largest investor type dummies	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry 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. *Dissent* is an indicator variable, which equals one if the variable % Mgmt. “for” votes takes a value in the first quartile of its distribution. *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				Dissent
	(1)	(2)	(3)	(4)	(5)
<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>	<b>-0.999***</b> <b>(-10.79)</b>
3-year avg ROE		0.399*** (2.75)	-0.004 (-0.02)	-0.025 (-0.18)	-0.015 (-1.55)
Firm age		-0.009*** (-4.21)	-0.000 (-0.03)	0.003 (1.15)	0.000 (0.06)
Leverage		0.057 (0.11)	-0.361 (-0.75)	-0.481 (-1.01)	-0.004 (-0.30)
Ln(market cap)		0.135*** (3.78)	-0.023 (-0.60)	-0.048 (-1.28)	0.022*** (7.96)
MTB		0.000 (0.59)	-0.000 (-0.13)	-0.000 (-0.10)	-0.000 (-0.49)
Special meeting		-0.300*** (-2.73)	-0.725*** (-6.41)	-0.718*** (-6.25)	0.002 (0.37)
Stock return		0.406*** (4.76)	0.377*** (4.47)	0.403*** (4.82)	-0.024*** (-4.55)
% Free float		-0.034*** (-8.90)	-0.022*** (-5.61)	-0.022*** (-5.76)	0.002*** (8.30)
% shares foreign investors		-0.022*** (-7.34)	-0.016*** (-5.02)	-0.017*** (-5.38)	0.001*** (5.15)
% shares institutional investors		-0.035*** (-7.32)	-0.041*** (-7.06)	-0.039*** (-6.56)	0.004*** (11.49)
% shares largest investor		0.005 (0.75)	0.003 (0.38)	0.002 (0.26)	0.000 (0.04)
Herfindahl Top 10 investors		0.000 (1.01)	0.000* (1.79)	0.000* (1.91)	-0.000*** (-2.94)
Djankov ADRI			-0.050 (-0.27)	0.897*** (3.78)	-0.043** (-2.52)
Djankov ASDI			-1.104 (-1.32)	3.300*** (2.61)	-0.305*** (-3.97)
GDP per capita			-0.000*** (-2.92)	-0.000*** (-4.75)	0.000*** (6.41)
Market cap/GDP			0.001** (2.13)	-0.004*** (-4.24)	0.000*** (4.53)
Rule of law			-0.522 (-1.37)	0.241 (0.53)	-0.016 (-0.59)
Sub-continent FE	No	No	No	Yes	Yes
Djankov legal origin dummies	No	No	Yes	Yes	Yes
Largest investor type dummies	No	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Observations	39,436	27,645	25,838	25,838	25,838
Adjusted R-squared	0.024	0.051	0.083	0.091	0.170

**Table 4: Monitoring intensity 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)		1.533*** (3.86)		0.357*** (4.46)		0.872*** (2.99)	
Low votes cast	-0.115*** (-3.05)	-0.118** (-2.59)	-0.483*** (-3.90)	-0.524** (-2.67)				
<b>Trust * Low votes cast</b>	<b>0.226*** (3.16)</b>	<b>0.211*** (3.40)</b>	<b>1.050*** (4.05)</b>	<b>1.043*** (3.17)</b>				
High mgmt. "for" votes					-0.105*** (-4.39)	-0.083*** (-3.40)	-0.125 (-1.56)	-0.218 (-1.41)
<b>Trust * High mgmt. "for"</b>					<b>0.338*** (6.56)</b>	<b>0.296*** (6.33)</b>	<b>0.939*** (5.49)</b>	<b>1.117*** (4.20)</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: Confidence in institutions**

This table reports the results from OLS regressions of *Votes cast* (columns (1) to (4)) and *% Mgmt. “for” votes* (columns (5) to (8)) 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’. 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)
<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)
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
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sub-continent FE	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	13,383	13,383	13,383	13,383	25,838	25,838	25,838	25,838
Adjusted R-squared	0.460	0.458	0.456	0.462	0.092	0.091	0.091	0.092

### Table 6: 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) and La Porta et al. (1997), 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)*. % *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 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 dummies	Yes	Yes	Yes	Yes
Largest investor type dummies	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry 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>
Country-level controls	Yes	Yes	Yes	Yes
Firm-level controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Djankov legal origin dummies	Yes	Yes	Yes	Yes
Largest investor type dummies	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry 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>
Country-level controls	Yes	Yes	Yes	Yes
Firm-level controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Djankov legal origin dummies	Yes	Yes	Yes	Yes
Largest investor type dummies	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry 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 7: Terror attacks as transitory shocks to trust**

This table reports the results from OLS regressions of % *Votes cast*, % *Mgmt. “for” votes* and *Dissent* indicator variable on different measures of terror attacks. *Terror* is an indicator variable that equals one if there was a terror 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 10 fatalities* is an indicator variable that equals one if there was a terror attack with at least ten fatalities within one month of the shareholder meeting in the respective company’s country of headquarters. *Terror 25 fatalities* is an indicator variable that equals one if there was a terror attack with at least 25 fatalities within one month of the shareholder meeting in the respective company’s country of headquarters. % *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. *Dissent* is an indicator variable, which equals one if the variable % *Mgmt. “for” votes* takes a value in the first quartile of its distribution. 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.

<b>Terror attacks within one month of the shareholder meeting</b>									
Dep. Variables:	% Votes cast			% Mgmt. “for” votes			Dissent		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Terror</b>	<b>0.417*</b> (1.75)			<b>-0.232**</b> (-2.61)			<b>0.024***</b> (3.86)		
<b>Terror 10 fatalities</b>		<b>0.868***</b> (2.93)			<b>-0.292**</b> (-2.25)			<b>0.022***</b> (3.63)	
<b>Terror 25 fatalities</b>			<b>0.967***</b> (5.48)			<b>-0.615***</b> (-5.98)			<b>0.047***</b> (7.73)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	20,716	20,716	20,716	39,436	39,436	39,436	39,436	39,436	39,436
R-squared	0.025	0.025	0.025	0.003	0.003	0.003	0.004	0.004	0.004

**Table 8: 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. The table reports the results from regressions on sub-samples based on the median of firm characteristics, i.e., firm size and firm age. % *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.

	% 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)
Country-level controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sub-continent FE	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	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> =	z-test	p-value	z-test	p-value	z-test	p-value	z-test	p-value
Trust <sub>Sample B</sub>	0.945	0.345	0.296	0.767	-2.339	0.019	-1.795	0.073

## Appendices

### Appendix A: Variable definitions

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

Variable	Definition
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.
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. "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.
% Roman Catholic	Proportion of people who consider themselves Roman Catholics. (Source: World Values Survey (WVS))
Trust	Proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. (Source: WVS)
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.
Firm age	The number of years since foundation for a given fiscal year.
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.
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 1st and 99th percentiles.
% 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.
Herfindahl top 10 investors	Herfindahl index based on the company's top 10 investors for a given fiscal year.
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 = management	Indicator variable equal to one if the largest investor is an insider 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.
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 Development Indicators)
Market cap/GDP	Market capitalization as a percentage of the country's GDP for a given fiscal year. (Source: 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)



## Appendix B: Trust and management “against” votes

This table reports the results from OLS regressions of % Mgmt. “against” 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. “against” votes is the average percentage of votes cast against the management’s recommendations 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.

Dep. variable:	% Mgmt. “against” votes			
	(1)	(2)	(3)	(4)
<b>Trust</b>	<b>-4.447***</b> (-7.26)	<b>-3.552***</b> (-5.57)	<b>-4.714***</b> (-4.46)	<b>-11.942***</b> (-7.02)
3-year avg ROE		-0.358* (-1.94)	0.050 (0.27)	0.111 (0.65)
Firm age		-0.008** (-2.40)	-0.003 (-0.75)	-0.008** (-2.24)
Leverage		-0.535 (-0.98)	0.006 (0.01)	0.228 (0.56)
Ln(market cap)		-0.247*** (-4.13)	-0.186*** (-3.28)	-0.164*** (-2.93)
MTB		-0.000 (-0.77)	0.001 (0.31)	-0.000 (-0.03)
Special meeting		1.023*** (7.13)	0.884*** (6.64)	0.904*** (6.59)
Stock return		-0.545*** (-4.22)	-0.442*** (-3.50)	-0.478*** (-4.09)
% Free float		0.043*** (7.80)	0.024*** (4.09)	0.027*** (4.66)
% shares foreign investors		0.021*** (6.38)	0.012*** (3.52)	0.013*** (3.85)
% shares institutional investors		0.044*** (7.12)	0.047*** (6.37)	0.046*** (5.93)
% shares largest investor		0.017* (1.65)	-0.002 (-0.25)	0.001 (0.10)
Herfindahl Top 10 investors		-0.000* (-1.73)	-0.000 (-0.84)	-0.000 (-1.17)
Djankov ADRI			-0.193 (-1.21)	-1.040*** (-4.14)
Djankov ASDI			0.151 (0.17)	-2.733** (-2.08)
GDP per capita				
Market cap/GDP			0.000 (0.84)	0.003*** (3.08)
Rule of law			-0.000 (-0.63)	0.981 (1.43)
Sub-continent FE	No	No	No	Yes
Djankov legal origin dummies	No	No	Yes	Yes
Largest investor type dummies	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Observations	28,400	19,514	17,682	17,682
Adjusted R-squared	0.017	0.043	0.064	0.077

## Appendix C: 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. % 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)
3-year avg ROE	3.325*** (3.85)	1.937** (2.17)	2.182** (2.42)	0.538*** (4.07)	0.146 (1.12)	0.119 (0.92)
Firm Age	0.021 (1.58)	0.007 (0.50)	0.013 (0.94)	-0.010*** (-6.01)	-0.001 (-0.38)	0.002 (0.93)
Leverage	0.956 (0.68)	0.039 (0.03)	0.529 (0.38)	0.351 (0.98)	0.011 (0.04)	-0.099 (-0.43)
Ln(market cap)	0.474** (2.41)	0.410* (1.89)	0.345 (1.57)	0.032 (1.07)	-0.123*** (-3.87)	-0.141*** (-4.47)
MTB	-0.004** (-2.51)	-0.010 (-1.39)	-0.009 (-1.23)	0.001 (1.25)	0.000 (0.16)	0.000 (0.18)
Special meeting	-2.910*** (-6.83)	-2.219*** (-5.10)	-1.839*** (-4.39)	0.235*** (2.77)	-0.320*** (-3.70)	-0.296*** (-3.41)
Stock return	-0.007 (-0.01)	-0.176 (-0.37)	-0.010 (-0.02)	0.398*** (5.90)	0.338*** (5.11)	0.365*** (5.58)
% free float	0.598*** (27.24)	0.626*** (27.63)	0.635*** (27.73)	0.958*** (330.59)	0.970*** (331.57)	0.970*** (332.26)
% shares foreign investors	0.058*** (4.56)	0.072*** (5.12)	0.079*** (5.69)	-0.019*** (-10.04)	-0.012*** (-5.97)	-0.014*** (-6.72)
% shares institutional inv.	-0.121*** (-4.37)	-0.051* (-1.71)	-0.033 (-1.06)	-0.033*** (-8.97)	-0.039*** (-8.42)	-0.036*** (-7.75)
% shares largest investor	-0.172*** (-3.32)	-0.147*** (-2.71)	-0.167*** (-3.09)	-0.016** (-2.09)	-0.017** (-2.34)	-0.017** (-2.28)
Herfindahl Index Top 10 Inv.	0.002*** (3.00)	0.002*** (2.80)	0.002*** (2.182**)	0.000*** (4.56)	0.000*** (4.66)	0.000*** (4.61)
Djankov ADRI		1.180*** (2.64)	-2.154** (-2.58)		-0.127 (-0.88)	0.682*** (3.26)
Djankov ASDI		-15.010*** (-3.17)	-17.230** (-2.48)		-1.333** (-2.02)	3.223*** (3.33)
GDP per capita		-0.000* (-1.65)	0.000* (1.80)		-0.000*** (-3.99)	-0.000*** (-6.89)
Market cap/GDP		0.005*** (2.78)	0.001 (0.38)		0.001** (2.45)	-0.003*** (-3.74)
Rule of Law		-1.974 (-1.45)	3.174** (2.06)		-0.283 (-0.87)	0.467 (1.39)
Sub-continent FE	No	No	Yes	No	No	Yes
Djankov legal origin dummies	No	Yes	Yes	No	Yes	Yes
Largest investor type dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry 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

## Appendix D: 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. % *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>
3-year avg ROE	0.134 (0.87)	0.218 (0.64)	-0.032 (-0.13)	-0.034 (-0.07)
Firm age	0.001 (0.35)	-0.002 (-0.39)	0.006 (1.33)	0.021*** (3.00)
Leverage	-0.047 (-0.13)	-0.720*** (-2.90)	-0.210 (-0.31)	0.466 (0.73)
Ln(market cap)	-0.127*** (-3.34)	-0.223*** (-2.74)	0.051 (0.59)	0.534*** (4.28)
MTB	-0.001 (-0.50)	0.001 (0.52)	0.001 (0.54)	0.001 (0.09)
Special meeting	-0.649*** (-3.63)	1.107*** (5.06)	0.260 (1.14)	-2.262*** (-4.41)
Stock return	0.547*** (6.04)	0.693*** (4.67)	0.154 (0.83)	0.654** (2.51)
% free float	-0.019*** (-4.12)	-0.035*** (-4.71)	-0.050*** (-6.72)	-0.054*** (-3.96)
% shares foreign investors	-0.010*** (-2.94)	-0.041*** (-8.38)	-0.028*** (-3.40)	-0.000 (-0.02)
% shares institutional investors	-0.027*** (-4.08)	-0.106*** (-8.61)	-0.036*** (-2.80)	-0.112*** (-5.80)
% shares largest investor	0.005 (0.63)	-0.007 (-0.43)	-0.041*** (-2.88)	-0.013 (-0.52)
Herfindahl Top 10 investors	0.000 (1.14)	0.000* (1.89)	0.000* (1.79)	0.000 (0.49)
Djankov ADRI	0.043 (0.17)	1.253*** (2.76)	0.974 (1.49)	2.917*** (5.04)
Djankov ASDI	2.529* (1.87)	0.653 (0.31)	4.616 (0.96)	3.138 (0.74)
GDP per capita	-0.000** (-2.39)	-0.000 (-0.88)	-0.000 (-1.15)	-0.000 (-1.09)
Market cap/GDP	-0.004*** (-3.50)	-0.004** (-2.39)	-0.003 (-1.06)	-0.004 (-1.02)
Rule of law	0.878** (2.02)	-0.877 (-1.05)	0.468 (0.19)	-4.808*** (-3.16)
Djankov legal origin dummies	Yes	Yes	Yes	Yes
Largest investor type dummies	Yes	Yes	Yes	Yes
Sub-continent FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Industry 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

## 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 to Table IA.10:** We re-estimate all regressions shown in Table 2 to Table 8 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.11 to Table IA.18:** 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 legislation 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.19 to Table IA.20:** We re-estimate the regressions shown in Table 4 and the regression shown in column (3) of Table 2 of this paper using total management compensation as well as the fraction of cash compensation to total management compensation and cash compensation, respectively, as the dependent variable. We re-estimate these regressions to alleviate concerns that our findings, particularly those for future firm performance, are driven by an unobserved relation between trust and management compensation, which might affect managerial incentives. Following Correa and Lel (2016), we retrieve cross-country data on management compensation from Capital IQ. Our results suggest that trust does not exhibit a significant relation with management compensation.

## about ECGI

The European Corporate Governance Institute has been established to improve *corporate governance through fostering independent scientific research and related activities*.

The ECGI will produce and disseminate high quality research while remaining close to the concerns and interests of corporate, financial and public policy makers. It will draw on the expertise of scholars from numerous countries and bring together a critical mass of expertise and interest to bear on this important subject.

The views expressed in this working paper are those of the authors, not those of the ECGI or its members.

## ECGI Working Paper Series in Finance

### Editorial Board

Editor	Ernst Maug, Professor of Corporate Finance, Mannheim Business School, University of Mannheim
Consulting Editors	Franklin Allen, Nippon Life Professor of Finance, Professor of Economics, The Wharton School of the University of Pennsylvania Julian Franks, Professor of Finance, London Business School Marco Pagano, Professor of Economics, Facoltà di Economia Università di Napoli Federico II Xavier Vives, Professor of Economics and Financial Management, IESE Business School, University of Navarra Luigi Zingales, Robert C. McCormack Professor of Entrepreneurship and Finance, University of Chicago, Booth School of Business
Editorial Assistants	Tamas Barko, University of Mannheim Sven Vahlpahl, University of Mannheim Vanessa Wang, University of Mannheim

## **Electronic Access to the Working Paper Series**

The full set of ECGI working papers can be accessed through the Institute's Web-site ([www.ecgi.org/wp](http://www.ecgi.org/wp)) or SSRN:

<b>Finance Paper Series</b>	<a href="http://www.ssrn.com/link/ECGI-Fin.html">http://www.ssrn.com/link/ECGI-Fin.html</a>
-----------------------------	---

<b>Law Paper Series</b>	<a href="http://www.ssrn.com/link/ECGI-Law.html">http://www.ssrn.com/link/ECGI-Law.html</a>
-------------------------	---