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Trust and Shareholder Voting

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Abstract

We show that in countries with more societal trust shareholders cast fewer votes at shareholder meetings and are more supportive of management proposals. This result is confirmed by shocks to trust and instrumental variables. It also holds at the U.S.-county level and for U.S. institutional investor voting on management proposals. Further, low shareholder participation and less dissent voting relate less negatively to future firm performance in high-trust countries, suggesting that managers do not exploit lower monitoring levels when trust is high. Our evidence supports theory according to which trust substitutes for monitoring and has implications for investors' optimal voting effort.

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

JEL Classifications: G3, G19, G32

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Trust and Shareholder Voting

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Abstract

We show that in countries with more societal trust shareholders cast fewer votes at shareholder meetings and are more supportive of management proposals. This result is confirmed by shocks to trust and instrumental variables. It also holds at the U.S.-county level and for U.S. institutional investor voting on management proposals. Further, low shareholder participation and less dissent voting relate less negatively to future firm performance in high-trust countries, suggesting that managers do not exploit lower monitoring levels when trust is high. Our evidence supports theory according to which trust substitutes for monitoring and has implications for investors' optimal voting effort.

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A growing literature in economics and finance studies the impact of culture on human and organizational behavior (for reviews, see e.g., Guiso, Sapienza, and Zingales, 2006; Karolyi, 2016). A significant part of this literature examines how societal trust affects economic outcomes such as organizational productivity and economic growth (e.g., Knack and Keefer, 1997; Bloom, Sadun, and van Reenen, 2012) and stock market participation (Guiso, Sapienza, and Zingales, 2008). These studies typically assume that trust substitutes for costly monitoring.[1] Our study performs a direct test of the validity of this assumption within the context of shareholder monitoring via voting.

Consistent with economic theory, we show that trust relates negatively to shareholder voting participation and positively to votes in support of management proposals, across both countries and U.S. counties. Thereby, our study expands the sparse literature on voting participation by shareholders and, more generally, the literature on the impact of culture on corporate governance. Understanding how trust relates to shareholder voting – independent of whether the relation is causal or merely has predictive power – can help investors optimize their allocation of costly voting. It is also important for regulators intent on increasing minority shareholder involvement in publicly listed firms to ensure representative voting results and effective monitoring.

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*". Consequently, trust can be expected to matter for principal-agent relations characterized by the separation of ownership and control as well as asymmetric information, where principals rely, at

[1] E.g., Knack and Keefer (1997, p.1252) argue that "individuals in higher-trust societies spend less to protect themselves from being exploited in economic transactions". See also Allen (2005) who argues that trust and reputation, by acting as substitutes for good corporate governance and strong law, have enabled China to experience strong economic growth despite weak law and institutions.

least to some extent, on agents not exploiting uncontracted contingencies. In this context, economic theory (e.g., Zak and Knack, 2001; Chami and Fullenkamp, 2002; Sliwka, 2007) predicts a negative relation between the time that principals spend on monitoring agents and trust as the latter limits moral hazard problems and hence principals' concerns about being expropriated.

In particular, trust and other forms of social capital discourage opportunistic behavior (Gusio, Sapienza, and Zingales, 2011), including moral hazard in firms (Hoi, Wu, and Zhang, 2019; Hilary and Huang, 2015). Importantly, trust in others is not normally exploited because norm-deviant cheating behavior entails psychological and social costs such as guilt and shame, a lack of reciprocation as well as ostracism and more direct punishment by others (e.g., Knack and Keefer, 1997; Fehr and Gaechter, 2000; Francois and Zabojnik, 2005). Concerning these costs, Anderlini and Terlizzese's (2017) model predicts that they sustain trust as an equilibrium phenomenon and that they increase with the level of trust that prevails in a country.[2] That is, the higher the level of trust in an agent's country, the less likely is the agent to expropriate the principal and the more is the principal able to reduce monitoring. Hence, trust may substitute for costly monitoring.

This study performs a direct and novel test of the theoretical prediction that high levels of trust reduce the amount of time economic agents spend on monitoring. More specifically, we focus on the relation between the level of trust in others that prevails in a society and voting as a measure of shareholder monitoring. Voting is the most direct manifestation of shareholders' residual rights vis-à-vis the company and the primary mechanism via which most shareholders voice dissatisfaction and monitor firm management (e.g., Yermack, 2010; McCahery, Sautner, and

[2] For related equilibrium analyses of trust, see, e.g., Huang and Wu (1994) and Dufwenberg (2002).

Starks, 2016; Edmans and Holderness, 2017). Their votes enable shareholders to vote for or against the (re-)appointment of directors, and to approve mergers and acquisitions as well as other voted proposals at the annual general shareholders' meeting (AGM) or a special meeting. The extant empirical evidence suggests that voting is an effective governance mechanism across the world (Iliev et al., 2015) and that voting rights are valuable.[3] Nevertheless, voting can be costly, particularly in terms of gathering information and monitoring management that are needed for shareholders to vote in an informed fashion. Consistent with voting being costly, we document an average voting participation across countries of only approximately 60%.

When deciding whether to exercise their votes, shareholders trade off the costs and benefits of voting. Ceteris paribus, a higher level of trust should reduce voting as it lowers shareholder concerns about being expropriated and hence the expected (net) monitoring benefits.[4] Still, for some shareholders the costs of voting might exceed the benefits, inducing them to rely on other shareholders to monitor management. This free-riding may result in insufficient monitoring of management, which would ultimately reduce firm value (Grossman and Hart, 1980). However, theory suggests that the potentially negative effect of reduced monitoring will be mitigated or even cancelled out in high-trust countries where managers are less likely to act against shareholder interests given the higher costs of cheating.

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[3] Several studies suggest that voting is an effective monitoring mechanism. For example, Del Guercio, Seery, and Woidtke (2008), Cai, Garner, and Walkling (2009), and Fischer et al. (2009) find that lower vote approval in director elections expresses shareholder dissatisfaction with management and is associated with a higher likelihood of CEO and board turnover and lower CEO compensation, among other things. Furthermore, Li, Liu, and Wu (2018) find that shareholder voting reduces agency problems pertaining to firms' acquisitions. In a similar vein, Kalay, Karakas, and Pant (2014) show that the value of voting rights increases around acquisition events.

[4] Shareholder expropriation also depends on the level of shareholder protection. In this regard, we find a strong, negative correlation between trust and government regulation in line with Aghion et al. (2010). Nevertheless, our empirical tests account for corporate ownership as well as for quality of law enforcement, legal systems, and Djankov et al.'s (2008) *revised* ADRI and ASDI indices, which accurately measure shareholder protection (Spamann, 2010).

To sum up, we expect a negative relation between trust and the level of shareholder monitoring as measured by shareholder participation (i.e., the percentage of votes cast) and the percentage of votes in support of management proposals. We also expect the potentially negative effect of low monitoring on future firm performance to be weaker (or even cancelled out) if trust is high. We formulate the following hypotheses:

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

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

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

Using the World Values Survey (WVS) to measure trust in others in the firm's country of headquarters, this paper provides evidence in support of the above three hypotheses. Specifically, as per H1 and H2, regressions of measures of shareholder voting on trust and extensive sets of controls for country, firm, and ownership characteristics as well as sub-continent fixed effects suggest that shareholder monitoring is significantly lower where the level of trust is higher. An increase in trust by one standard deviation is associated with a decrease in votes cast of at least 6.2 percentage points and an increase in votes for management proposals that corresponds to a reduction in the likelihood of a proposal being rejected (i.e., the percentage of votes for management being less than 50%) of five percentage points. We find the relation between trust and shareholder voting to be stronger (weaker) for firms with a higher free float (stake held by large foreign investors), consistent with there being differences in net monitoring benefits across shareholders (e.g., Shleifer and Vishny, 1986) and with shareholders being less aware of the levels of trust in foreign countries. These cross-sectional differences are robust to controlling for country fixed effects. Importantly, we find the negative relation between low monitoring, i.e., a low

percentage of votes cast and less dissent voting, on future firm performance and value to be weaker (and partially cancelled out) in high-trust countries, even when controlling for country fixed effects. This result indicates that, on average, managers do not exploit lower levels of monitoring in high-trust settings, consistent with H3 and with trust being an equilibrium phenomenon.

While the correlations between trust and shareholder voting are informative, we attempt to establish a causal link between the two using several tests. First, following Ahern (2018) who provides causal evidence that terrorist attacks reduce trust in others, we use such attacks prior to shareholder meetings as transitory negative shocks to trust. To mitigate concerns that institutional or economic responses to terrorism drive our results, we consider shareholder meetings as treated if they take place within two (or, alternatively, four) weeks after a terrorist attack while excluding attacks associated with negative average stock market responses. We find that such shareholder meetings are associated with more votes cast and fewer votes in support of management proposals. Second, our results are confirmed by instrumental variables regressions, which instrument trust by the share of people in a country who belonged to a hierarchical religion in the year 1900. This approach follows Putnam (1993) and La Porta et al. (1997) who argue that these religions have undermined the development of trust among people because the vertical bond with the church has weakened the horizontal bond with fellow citizens. Our results are upheld when we use an alternative instrument for trust, namely the concentration of the top 5 surnames in a country. A lack of such concentration indicates societal fragmentation (e.g., in terms of ethnicity) that undermines trust (e.g., Alesina and La Ferrara, 2002). Third, our results are robust to the inclusion of additional variables such as the level of trust in the home countries of the firm's largest foreign investors, and the levels of confidence in companies, the government, and the press as well as firm- and country-level governance controls (e.g., ESG ratings, control of corruption, and regulatory quality).

To further rule out that our results reflect unobserved country characteristics and to ensure that voting is comparable across countries and firms, we conduct three more tests. First, we repeat our main analysis for European countries only, i.e., comparable economies with a joint history and comparable laws pertaining to corporations and shareholder voting. Our results are upheld. Second, we repeat our main analysis for a single country, the U.S.A. Specifically, following Algan and Cahuc (2010) we use an ancestry-based measure of inherited trust at the U.S.-county level in conjunction with U.S.-state fixed effects, which ensures that voting is comparable across firms and that time-invariant country and state characteristics cannot explain our results. We still find that trust in others reduces shareholder monitoring via voting. Finally, we use the N-PX filing data to examine the voting behavior of U.S. institutional investors in both their foreign and domestic investee firms. This approach allows us to rule out that differences in investor types or origin explain our results and to address the question of whether trust also matters for professional investor voting. For the foreign investee firms, it also allows us to exploit variation in trust levels for the same firm and country over time. Using firm (U.S.-state) fixed effects, we find that institutional investor votes are more supportive of management proposals at shareholder meetings of investee firms headquartered in countries (U.S. counties) with higher levels of (inherited) trust.

This paper contributes to several strands of the literature. First, it contributes to the emerging literature on shareholder voting behavior across countries and firms. Iliev et al. (2015) study the legal and firm-specific determinants of votes cast by U.S. institutional investors. For a sample of non-U.S. firms from 43 countries, they find that weaker investor protection and law enforcement as well as greater insider ownership are associated with a lower percentage of votes in support of management. Van der Elst (2011) examines the determinants of shareholder voting participation in Europe, particularly the concentration of control rights and the presence of shareholder groups.

Our paper extends this literature by providing evidence that an important aspect of culture, trust in others, has a significant relation with both shareholder participation and dissent with management above and beyond the voting determinants the existing studies have identified. In contrast to these studies, our paper is neither limited to institutional investors nor to shareholder voting in Europe.[5]

Second, our paper contributes to the literature that studies how culture relates to governance and economic outcomes, particularly to the literature that links trust to economic performance.[6] While this literature assumes that trust facilitates cooperation and thus allows economic actors to spend more time on producing rather than monitoring, it does not directly test the validity of this assumption. Our study is the first such direct test. More generally, our study extends the sparse literature on the impact of culture on corporate governance (see Licht, Goldschmidt, and Schwartz, 2005; Karolyi, 2016). Hoi, Wu, and Zhang (2019) provide evidence that the level social capital other than trust that prevails in the U.S. county where a firm is headquartered mitigates CEO rent extraction. Furthermore, Urban (2019) finds that in countries with greater power distance (Hofstede, 2001), CEO turnover is less sensitive to performance. Our study differs from previous studies as it focuses on direct monitoring by shareholders, rather than delegated monitoring by the board, while controlling for firm governance quality, CEO pay, and other measures of social capital as well as power distance.

[5] Adding to this literature, Cvijanovic, Groen-Xu, and Zachariadis (2019) formulate a model on voting participation by shareholders. The model predicts that greater homogeneity in the ex-ante preferences of shareholders leads to lower voting participation, while greater heterogeneity yields higher participation. They find their model's predictions to be consistent with U.S. voting data.

[6] See, e.g., Knack and Keefer (1997), La Porta et al. (1997), Zak and Knack (2001), Algan and Cahuc (2010), Bloom Sadun, and Van Reenen (2012).

Finally, the results of our paper suggest that it can be rational for investors to conduct less costly monitoring if trust is high. This evidence supports the theoretical prediction that trust is an equilibrium phenomenon whereby agents do not exploit principals who trust them as cheating is associated with substantial costs (e.g., Anderlini and Terlizzese, 2017).[7]

The paper proceeds as follows. Section 1 presents the data, methodology, and summary statistics. Section 2 proceeds with the empirical analysis while Section 3 contains a battery of robustness tests. Section 4 confirms that our cross-country evidence also holds at the U.S.-county level and for U.S. institutional investors. 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 data on shareholder voting as well as firm, ownership, and country characteristics. We obtain voting data from ISS Voting Analytics Global, which covers voting results of shareholder meetings across the world, excluding the U.S.A., starting with the year 2013. We use information from shareholder meetings taking place between 2013 and 2015.[8] We obtain the CUSIP, company name, meeting date, meeting type, agenda item

[7] Thereby, our study also extends the literature on the importance of incomplete contracts and the optimal level of control (e.g., Scott, 2003; Falk and Kosfeld, 2006; Faleye, Hoitash, and Hoitash, 2011), particularly the trade-off between control and trust (e.g., Sliwka, 2007). While much of this literature is theoretical or relies on experimental evidence, our study provides direct empirical evidence of shareholder monitoring via voting.

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

description, ISS proposal category, the percentage of total votes exercised, and the percentages of votes cast in favor of and against each proposal. We merge the voting data with firm-level data from Thomson Reuters Eikon, including accounting, ownership, and stock price data.

ISS Voting Analytics covers management-initiated and shareholder-initiated proposals. In what follows, unless otherwise specified, we focus on the former for two reasons. First, we are interested in the support, or absence thereof, managers receive from their shareholders. Second, virtually all of the proposals are management-initiated proposals (see Panel C of Table 1). Overall, our sample consists of 194,548 management-initiated proposals with information on votes exercised in favor of these management-initiated proposals, i.e., management "for" votes. We aggregate proposal-level data for each meeting, resulting in data for 27,645 meetings with information on average management "for" votes and firm-level characteristics for 9,087 individual firms from 44 different countries. Data on the percentage of votes cast (*% Votes cast*) is available for 14,085 shareholder meetings held by 4,377 unique firms from 43 different countries.

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

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

Our main explanatory variable is *Trust*. In line with the economics literature, we obtain this measure from WVS.[9] It is the proportion of survey respondents for each country agreeing that "most people can be trusted", against the alternative that "you can't be too careful in dealing with people". This measure focuses on general trust, i.e., "the trust that people have toward a random member of an identifiable group" (see Guiso, Sapienza, and Zingales, 2009, p.1101), which is different from interpersonal trust, i.e., mutual trust individuals develop via repeated interactions (e.g., Greif 1993). The WVS trust measure we use has been shown to be a valid predictor for actual general trusting behavior (e.g., Knack and Keefer, 1997; Guiso, Sapienza, and Zingales, 2011; Johnson and Mislin, 2012; Sapienza, Toldra-Simats, and Zingales, 2013).

[9] The WVS measure of societal trust is the most frequently used measure of trust (and social capital) (see, e.g., Knack and Keefer, 1997; La Porta et al., 1997; Zak and Knack, 2001; Guiso, Sapienza, and Zingales, 2004, 2008, 2009; Bloom, Sadun, and Van Reenen, 2012; and Ahern, 2018).

The regressions include the following sets of control variables: firm characteristics, ownership characteristics, and country characteristics. Firm characteristics include the three-year average ROE; firm age since foundation; leverage; the natural logarithm of market capitalization; the market-to-book ratio; the stock market return; and an indicator variable, which equals one if the shareholder 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, and an institutional shareholder).[10] We use these firm and ownership controls as countries with different levels of trust may have differences in firm and ownership characteristics that affect shareholder voting. 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, and the *revised* anti-director-rights index (ADRI), which is an accurate measure of minority shareholder protection across countries (see Spamann, 2010, footnote 23). Furthermore, we use Djankov et al.'s (2008) categorization of legal families to classify the countries where the sample firms 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 the rule of law index. We use these country-level controls as both the level of trust and

[10] We note that the ownership information in common databases may not accurately measure corporate control (see, e.g., Aminadav and Papaioannou, 2019). It is not clear whether this potential inaccuracy with regard to our ownership controls may affect our estimates.

shareholder voting behavior in a country may be affected by the quality of a country's institutions and its general economic situation. All variables are defined in Appendix A.

Finally, given that the variable *Trust* is time-invariant over our sample period (and persistent over time), we mainly use industry-fixed effects regressions to estimate the relation between trust and shareholder voting behavior. However, to account for regional economic factors and cultural covariates of trust that have developed historically and might impact shareholder voting, we also estimate regressions, which control for sub-continent-fixed effects.[11] However, whenever we use interaction terms of trust and other variables, we also conduct regressions with country-fixed effects. Following Iliev et al. (2015), we estimate all regressions at the firm level.[12] We use a linear probability model (LPM) if the dependent variable is either *Dissent* or *Mgmt. proposal rejected*. Furthermore, we conduct several identification tests, which include i) terrorist attacks prior to the shareholder meeting as exogenous, transitory shocks to trust; ii) two-stage least squares (2SLS) regressions where we instrument trust either by the religious denominations or by the concentration of the top 5 surnames that prevail in a country; iii) regressions based on a sample limited to Europe or to U.S. counties, i.e., one geographic region with similar laws and a joint history; and iv) U.S. institutional investor voting based on N-PX filing data. We describe the data and methodology used for these identification tests in Sections 3 and 4. We estimate all regressions with standard errors

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

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

clustered at the firm level. For robustness, we re-estimate all regressions using standard errors clustered at the country level and find qualitatively similar results (see Internet Appendix).

1.3 Summary Statistics

Table 1 shows summary statistics for trust and firm-level voting by country (Panel A), for the control variables (Panel B), and for the average percentage of votes cast in favor of the various types of voted proposals (Panel C). Panel A shows that trust, which has a cross-country mean of 45% and a standard deviation of 20%, ranges from a minimum of 4% (Colombia) to a maximum of 74% (Norway). The average percentage of votes cast ranges from 40.8% (New Zealand) to 100% (Cyprus). The mean percentage of votes cast across the sample is 59%, which is identical to the average reported in Van der Elst (2011), and the standard deviation is 20%. Finally, the average percentage of votes in support of management, which has a sample mean of 96% and a standard deviation of 6.5%, ranges from a low of 83.8% (Bulgaria) to 100% (e.g., Jordan, Morocco, 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.[13]

Panel B shows that the average (median) firm has an ROE of 5.6% (8.8%), is 31 (20) years old, has leverage of 0.20 (0.18), a market capitalization of about US$ 550 (639) million, and a market-to-book ratio of 4.7 (1.6). Special meetings account for 35.5% of all shareholder meetings. Concerning corporate ownership, average free float is 43%, while the largest investor holds 28% of the shares on average and large foreign investors hold 13%. Other corporations are the most

[13] 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.

frequent type of largest shareholder and they are present in the majority of firms (56%). The second most frequent type of largest investor is both families and institutional shareholders: They are each present in about 18% of the firms. Banks (4%), the government (2%), and the management (1%) are only rarely the largest investor. Firms from countries with English, French, and German law amount to 35%, 36%, and 29% of the observations, respectively. The average sample firm has an ADRI and ASDI index value of 3.4 and 0.66, respectively. Finally, the average ratio of a country's market capitalization to its GDP is 170% and the average GDP per capita amounts to $28,323.

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

Finally, we briefly discuss the pairwise correlations between *Trust* and the control variables (described in Section 1.2). The correlations are shown in Table IA.1 of the Internet Appendix. While the correlations are generally moderate, *Trust* correlates significantly with *Firm age* (0.23), the Djankov et al. (2008) indicator variables for English (-0.24) and French (0.23) legal origin, and the ASDI index (0.26). The only very strong pairwise correlation, i.e., -0.64, is between *Trust* and the ADRI index, which is consistent with Aghion et al. (2010) who find a strong, negative correlation between trust in others and government regulation for a cross-section of countries comparable to ours. This negative correlation makes it unlikely that any negative relation between trust and shareholder monitoring via voting reflects better legal shareholder protection or other

aspects of regulation relevant to shareholders. Furthermore, we find very low correlations between *Trust* and foreign as well as institutional investor ownership (0.02 and -0.09), especially hedge fund ownership (-0.02), as well as ISS "for" vote recommendations (-0.02). Hence, the negative relation between trust and shareholder monitoring via voting is unlikely to reflect cross-country differences in engagement by activist or foreign shareholders or proxy advisors.

2. Cross-country Evidence: Trust and Shareholder Voting

In the following, we present the results of analyses that test H1 to H3. According to the first two hypotheses, shareholder participation (i.e., *% Votes cast*) is lower in high-trust countries (as per H1), while the percentage of votes in favor of management-initiated proposals (i.e., *% Mgmt. "for" votes*) is greater (as per H2). According to H3, the negative effects of low shareholder monitoring are weaker in high-trust countries. Section 2.1 provides country-level evidence on the relation between trust and shareholder voting behavior. Section 2.2 presents the results from our baseline firm-level regressions of the measures of shareholder voting behavior on country trust and extensive sets of control variables (as described in Section 1.2). Section 2.3 provides additional evidence on how the relation between trust and shareholder voting varies with corporate ownership. Testing the validity of H3, Section 2.4 presents empirical evidence on the firm performance and firm value implications of the trust-shareholder voting relation.

2.1 Country-level Evidence

The first step in our empirical analysis is to conduct a simple test of the validity of our first two hypotheses, by considering the country-level relation between trust and the country averages for the two measures of shareholder voting behavior. Figure 1 depicts the relation between trust and shareholder voting across countries. Specifically, Figure 1a plots the average *% Votes cast* per

country against *Trust* for the 47 countries with available data for votes cast. The figure suggests a negative relation between the two variables, with fewer votes cast at shareholder meetings in high-trust countries. Figure 1b plots the average *% Mgmt. "for" votes* per country against *Trust* for the 46 countries with available data for votes in support of management. The relation between the two is positive with the percentage of votes in support of management increasing with country trust. Untabulated country-level regressions (with controls similar to those in Section 2.2) provide further empirical support for the aforementioned relations and hence for H1 and H2.

2.2 Baseline Regression Results

The second step in our empirical analysis consists of estimating firm-level regressions of voting measures on our variable of interest, *Trust*, and control variables. Table 2 contains the results for the regressions explaining the variable *% Votes cast*. The regression in column (1) includes *Trust* as well as year- and industry-fixed effects. The regressions in columns (2) and (3) are augmented by the firm and ownership characteristics, and the firm, ownership, and country characteristics, respectively. The regression in column (4) additionally includes sub-continent fixed effects. We re-estimate this regression adding *Avg trust foreign investors* as another control variable, which is defined as the ownership-weighted average level of trust that prevails in the countries where the firm's largest foreign investors are headquartered. We add this variable to address the concern that shareholder voting may be primarily determined by the level of trust in the countries where the firm's investors are located rather than the level of trust in the (investee) firm's country of headquarters. The results are shown in column (5). In all five regressions, the coefficient on *Trust* is negative and significant at the 1% level (with p-values < 0.000). This result provides support for H1 that the percentage of votes cast is lower in high-trust countries. In terms of the economic

significance, an increase in *Trust* by one standard deviation is associated with a decrease in *% Votes cast* of 6.2 to 8.5 percentage points (or at least 30 percent of one standard deviation).

With regard to the control variables, we find that 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 higher percentage of shares held by large foreign investors and those with more concentrated ownership (i.e., Herfindahl Top 10 investors). Conversely, the percentage of votes cast is lower for firms with greater free float. While overall institutional-investor ownership relates negatively to the percentage of votes cast, this percentage is higher if the largest investor is an institutional investor. In contrast, the percentage of votes cast is lower at special shareholder meetings. The results for firm size and concentrated ownership are in line with Van der Elst (2011). Interestingly, most of the country characteristics are significant. Particularly, the Djankov et al. (2008) ADRI and ASDI indices have a significantly positive relation with the percentage of votes cast.

Panel A of Table 3 reports the results for the regressions explaining *% Mgmt. "for" votes*. In terms of the control variables, the five columns in Table 3 are equivalent to the five columns in Table 2. As per H2, throughout columns (1) to (5) the coefficient on *Trust* is positive and significant at the 1% level (with p-values < 0.000), consistent with more shareholder support for management proposals in countries with higher trust levels. This result is supported by the evidence presented in Appendix B, which shows the results of regressions similar to those in column (4) of Table 3, but with the different alternative measures of shareholder dissent as the dependent variable. We find the coefficient on *Trust* to be significantly negative when we use the percentage of votes against management (*% Mgmt. "against" votes*), the indicator variables *Dissent* and *Mgmt. proposal rejected*, and the count variable *# Shareholder proposals* as the dependent variable. That is, trust is associated with significantly lower shareholder dissent and engagement. In terms of

economic significance, an increase in *Trust* by one standard deviation relates to an increase in *% Mgmt. "for" votes* of up to 30 percent of a standard deviation and a decrease in the likelihood of at least one management proposal being rejected (*Mgmt. proposal rejected*) of 5%.

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

The analysis in Panel B of Table 3 focuses on explaining the support management obtains for the four main types of management-initiated proposals. The regressions, which are estimated for each proposal type separately, are similar to those in column (4) of Panel A, except for the dependent variable. The results suggest that trust matters for director-related (column (1)), capitalization-related (column (2)), and compensation-related proposals (column (4)). For the three types of proposals, the coefficient on *Trust* is significant at the 1% level (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 China, India, and Japan, which have relatively high average percentages of votes in support, but very different levels of trust ranging from 0.22 for India to 0.64 for China.

Finally, we re-estimate the regressions shown in Table 2 and Table 3 with the dependent variables *% Votes cast* and *% Mgmt. "for" votes* adjusted by the percentage of votes held by the 50 largest investors. We make this adjustment because, in contrast to small shareholders, large

investors are much more likely to exercise their votes and may also be directly involved in the management of the firm (as this is often the case in family firms). As shown in Appendix C, we find the coefficient on *Trust* to remain statistically significant (at the 5% level or better) and to have the expected sign when used to explain adjusted *% Votes cast* and adjusted *% Mgmt. "for" votes*.

2.3 Trust, Shareholder Voting, and Differences Across Corporate Ownership

If trust indeed lowers shareholders' expected (net) monitoring benefits by mitigating their concerns of being expropriated, we expect the relation between trust and shareholder voting to vary with corporate ownership. In particular, this relation should be more pronounced for firms with a greater share of small (retail) shareholders who typically have lower monitoring benefits and are less capable of bearing the costs of monitoring (see, e.g., Grossman and Hart, 1980; Shleifer and Vishny, 1986). Consequently, if trust reduces the expected monitoring benefits, the costs of monitoring will more likely exceed the relatively low benefits for small shareholders inducing them not to vote. Furthermore, we expect the relation between trust and shareholder voting to be less pronounced for (large) foreign shareholders for the following two reasons. First, such shareholders are likely to be less aware of the trust levels that prevail in foreign countries. Second, they tend to be institutional investors, which are better capable of bearing the costs of monitoring.

Table 4 presents the results of regressions that test the aforementioned cross-sectional predictions. We re-estimate the regressions shown in column (4) of Table 2 and Table 3, which we augment by the variable *High free float* (set to one for firm-years where *% Free float* is above the sample median, and zero otherwise) and its interaction with *Trust*. Alternatively, we use the variable *High foreign ownership* (set to one for firm-years where *% Shares foreign investors* is above the sample median, and zero otherwise) and its interaction with *Trust*. Columns (1) to (4) show the results of regressions with the dependent variable being *% Votes cast* while in columns

(5) to (8) we use *% Mgmt. "for" votes*. To account for unobserved time-invariant heterogeneity across countries, columns with even numbers include country (instead of sub-continent) fixed effects, which can be used as we are primarily interested in the interaction of *Trust* with the two measures of corporate ownership.

The results in Table 4 provide empirical support for our cross-sectional predictions and are robust to the inclusion of country fixed effects. Specifically, we find the relation between trust and shareholder voting to be significantly more (less) pronounced for firms with a higher free float (stake held by foreign investors), consistent with differences in net benefits of monitoring across shareholders and with shareholders being less aware of the levels of trust in foreign countries.

2.4 Trust, Shareholder Voting, and Firm Performance: Implications for Optimal Monitoring

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

We expect that low voting participation and too little dissent with firm management reflect a lack of managerial oversight by shareholders and may therefore relate negatively to firm stock performance and value. However, as per H3, we expect this negative relation to be weaker in high-trust countries where managers, due to the higher costs of cheating, are more likely to act in the interests of the shareholders, independent of the degree of shareholder monitoring.

Table 5 reports the regressions explaining the stock return, and alternatively Tobin's Q, in year t+1. The explanatory variables are *Trust*; an indicator variable that equals one if *% Votes cast* is below (*% Mgmt. "for" votes* is above) the sample median, and zero otherwise; and the interaction

between the two previous variables, i.e., *Trust*Low votes cast* (*Trust*High mgmt. "for" votes*). As in Section 2.3, a benefit from this analysis is that the aforementioned interactions allow us to include country fixed effects to control for unobserved heterogeneity across countries. As above, we present the results of regressions estimated with and without country fixed effects.

Columns (1) to (4) of Table 5 focus on the *Low votes cast* indicator variable whereas columns (5) to (8) focus on the *High mgmt. "for" votes* indicator variable. In line with La Porta et al. (1997) and Bloom, Sadun, and van Reenen (2012), who report that societal trust improves the performance and productivity of large organizations, we find *Trust* to be positively associated with firm performance and value while being significant at the 1% level. As expected, the percentage of votes cast being low and the percentage of votes in support of management being high (i.e., below-median participation and dissent) show a significantly negative relation with stock return and Tobin's Q in t+1. That is, a (potential) lack of shareholder monitoring has a negative association with future firm performance and value. Importantly, the coefficient on *Trust*Low votes cast* is significant (at the 1% level) and positive. This result suggests that the negative association of low shareholder monitoring with firm performance and value is weaker in high-trust countries where managers are less likely to act against the interests of their shareholders. In a similar vein, the negative relation of (too) little dissent voting with firm performance and value is also weaker in high-trust countries as indicated by the positive and significant (at the 1% level) coefficient on *Trust*High mgmt. "for" votes*. All results remain qualitatively similar when we control for country

fixed effects in columns (2), (4), (6) and (8), which suggests that our results for trust do not depend on time-invariant country-specific heterogeneity.[14]

The results in Table 5 indicate that the potentially negative effects of low monitoring are mitigated or even cancelled out in high-trust countries. Specifically, the negative coefficient on *Low votes cast* is cancelled out by the positive coefficient on *Trust*Low votes cast* for values of *Trust* equal to 0.51 (*Stock return*$_{t+1}$) and 0.46 (*Tobin's* Q_{t+1}). The negative impact of *High mgmt. "for" votes* is cancelled out for values of *Trust* of 0.31 (*Stock return*$_{t+1}$) and 0.13 (*Tobin's* Q_{t+1}). These numbers are based on the estimations without country fixed effects and relate to the median (mean) value for *Trust* of 0.28 (0.45).

Overall, our results suggest that in high-trust countries managers do not exploit the greater discretion associated with low levels of shareholder monitoring, consistent with the high costs of cheating sustaining a trust equilibrium as theorized in the literature (e.g., Anderlini and Terlizzese, 2017). For some high-trust countries, lower levels of shareholder monitoring via voting are even associated with higher future stock performance and firm value. This finding is in line with the existing evidence that less control, which signals trust in management, and greater managerial discretion may generate benefits (e.g., Falk and Kosfeld, 2006; Sliwka, 2007; Faleye, Hoitash, and Hoitash, 2011). We conclude that the optimal level of shareholder monitoring depends on the level of trust in others (and hence also in management) that prevails in a country.

[14] 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 5. We do likewise for *% Mgmt. "for" votes*. We find qualitatively similar results to those reported in Table 5. This finding suggests that the results in Table 5 are not driven by a correlation between *Trust* and the two indicator variables for low monitoring intensity.

3. Cross-country Robustness Tests

In this (and the next) section, we conduct a number of empirical tests to confirm the robustness of our results and to attempt to establish a causal link between trust and shareholder voting. When we re-estimate the regressions from our main analyses and all robustness tests using standard errors clustered at the country (or U.S.-county) level instead of the firm level, our results remain qualitatively unchanged as shown in Tables IA.2 to IA.20 of the Internet Appendix. The other tests are presented in more detail in Sections 3.1 to 3.3 below.

3.1 Terrorist Attacks as Transitory Negative Shocks to Trust

As a first robustness test, we use terrorist attacks as transitory negative shocks to trust to identify the link between the latter and shareholder voting. In this regard, Ahern (2018) argues that terrorism has an impact on people's behavior primarily via a psychological channel. He uses the WVS trust measure to provide causal evidence that terrorist attacks lead to a decline in societal trust. Given that such attacks are surprise events, which are unrelated to individual firm characteristics and typically cause no severe economic damage, they likely cause exogenous reductions in trust levels in the affected countries. To mitigate concerns that institutional or economic responses to terrorism affect shareholder voting behavior, i.e., that terrorist attacks do not affect voting directly by reducing trust, we focus on shareholder meetings taking place just shortly after terrorist attacks. To further mitigate concerns of economic responses to terrorism, we exclude terrorist attacks with negative average stock market responses, which may indicate that investors expect such terrorist attacks to have economic consequences that could directly affect voting decisions.

We obtain information on terrorist attacks (i.e., the country and date of the attack, as well as the number of fatalities) for all countries in our sample from the Global Terrorism Database

provided by the University of Maryland. We only consider terrorist attacks with at least one fatality. We define a firm's shareholder meeting (both AGM and special meeting) as treated if it is held within two weeks or, alternatively, one month of a terrorist attack in the country where the firm is headquartered. The respective treatment indicator variables are denoted *Terror (2 weeks)* and *Terror (1 month)*. We find that between 20% and 42% of the firm-year observations in our sample are treated. For both terror indicator variables, we also use the interaction with the natural logarithm of the number of fatalities, i.e., *Terror*ln(fatalities)*, as an explanatory variable.

As at this stage we cannot exploit (short-term) changes in trust,[15] we estimate the reduced form regressions where we regress the variables *% Votes cast* and *% Mgmt. "for" votes* one by one on the aforementioned treatment variables as well as country-fixed effects, industry-fixed effects, and year-fixed effects. If terrorist attacks indeed reduce trust in others, we expect to find a positive (negative) regression coefficient on *Terror (2 weeks)*, *Terror (1 month)*, and *Terror*ln(fatalities)* when used to explain *% Votes cast* (*% Mgmt. "for" votes*). Table 6 presents the regression results. Panel A shows the results for all terrorist attacks. Panel B shows the results from regressions where we only define shareholder meetings as treated if the stock market reaction to a terrorist attack was not negative (as denoted by the subscript AR>0).

The results in Panel A and Panel B, which are qualitatively similar, support our expectations. Except for column (3) of Panel A, the coefficients on *Terror (2 weeks)* and *Terror (1 month)* as well as *Terror (2 weeks)*ln(fatalities)* and *Terror (1 month)*ln(fatalities)* are all statistically significant (at the 5% level or better) and all have the expected sign. The evidence

[15] We account for such changes in Section 4.

implies that shareholder meetings taking place shortly after terrorist attacks are associated with more votes cast and fewer votes in support of management compared to the shareholder meetings of firms in the same country, industry, and year that are not treated.[16] That is, an exogenous reduction in trust is associated with increased shareholder monitoring via voting. Importantly, we find that the treatment effect, as reflected by the magnitude of the regression coefficients on *Terror*ln(fatalities)*, increases with the number of fatalities caused by the terrorist attacks. The treatment effect is also stronger for shareholder meetings if less time has passed since the terrorist attack. This evidence suggests that our results are unlikely to be spurious but are driven by the exposure to a terrorist attack. Overall, the results confirm our previous findings and support the notion that trust affects shareholder voting.

3.2 Instrumental Variables Regressions

To further strengthen the causal link between trust and shareholder voting behavior, we conduct two 2SLS instrumental variables (IV) approaches. First, consistent with Putnam (1993), La Porta et al. (1997), and Zak and Knack (2001), we instrument *Trust* by the percentage of the population of each country in the year 1900 that followed a hierarchical religion, i.e., Roman Catholicism or Islam. Data on religious denominations in 1900 is provided by Enke (2019). We denote the instrumental variable *% Hierarchical religion in 1900*.[17] We use this instrument because

[16] We note that people might fear repeat terrorist attacks in their country and therefore avoid any kind of public meeting, which would have a negative effect on voter turnout at shareholder meetings after such attacks. More generally, terrorist attacks might distract people from their tasks (e.g., due to high media coverage). These effects run against us finding a significant coefficient on *Terror* when explaining *% Votes cast* and *% Mgmt. "for" votes*. We also note that a potential strategic manipulation of the AGM agenda by the management or board in reaction to terrorist attacks cannot explain our results because the agenda must be set and announced in advance of the meeting.

[17] In untabulated regressions, we find similar results using current levels of religious denomination as used in the extant literature. Current data on religious denomination is retrieved from WVS (question: "Do you belong to a religion or religious denomination? If yes, which one?").

hierarchical religions, as pointed out by Putnam (1993) and La Porta et al. (1997), have discouraged the formation of societal trust as the vertical bond with the church has undermined the horizontal bond with fellow citizens. That is, in countries shaped by hierarchical religions, people have spent more time with the church and less with other people (especially those of other religious denominations), which has hampered the development of societal trust. Hence, we expect the variable *% Hierarchical religion in 1900* to have a negative relation with *Trust*.

According to the literature (e.g., Guiso, Sapienza, and Zingales, 2006; Pevzner, Xie, and Xin, 2015), religion can be considered exogenous to trust as it is more elemental than culture. Arguably, this reasoning should hold for the relation between religions in 1900 and today's trust levels. Importantly, Smets and van Ham (2013) find in their meta-analysis that having a religious denomination does not significantly affect voter turnout in elections. Hence, in the context of our study, religious denomination appears to be a valid instrument for trust.

Table 7 reports the results of the first- and second-stage regressions from the 2SLS approach. Panel A shows the results based on using *% Hierarchical religion in 1900* as the instrument. As expected and confirming the results from the extant literature, *% Hierarchical religion in 1900* is statistically significant at the 1% level and negatively related to *Trust* in the first-stage regressions (see columns (1) and (3)). The results of the second-stage regressions, which include the instrumented country trust, i.e., *Trust (IV)*, on the right-hand side, confirm our previous results (see columns (2) and (4)). The coefficient on *Trust (IV)* is significant at the 1% level in both second-stage regressions and has the expected sign. Hence, trust is still associated with significantly lower shareholder monitoring via voting, i.e., a significantly lower percentage of votes cast and a significantly higher percentage of votes in favor of management. Besides the empirical support for the relevance condition, the Kleibergen-Paap F-statistic and the ratio of the IV to OLS

estimates (Jiang, 2017), i.e., *Trust (IV)/Trust*, support the quality of our IV estimation. The latter ratio suggests that the economic significance of instrumented trust, *Trust (IV)*, is comparable to that for *Trust* in the baseline regressions from Section 2.2.

Our results are upheld when we use an alternative instrument for trust. Specifically, we use the concentration of the five most frequent surnames in a country, denoted *Herfindahl index top 5 surnames*. A lack of surname concentration is a general measure of societal fragmentation, particularly in terms of ethnicity, race, and religion, which undermines trust (see Alesina and La Ferrara, 2002; Guiso, Sapienza, and Zingales, 2011). Accordingly, we expect a positive relation between this instrument and the variable *Trust* as less societal fragmentation, i.e., a greater concentration of surnames in a country, is expected to foster societal trust. We present the results of the alternative IV regression approach in Panel B of Table 7. We find indeed a significantly positive relation between the instrument *Herfindahl index top 5 surnames* and *Trust*. Supporting our previous results, we also find a significantly negative relation between instrumented trust, i.e., *Trust (IV)*, and shareholder monitoring via voting. Again, the Kleibergen-Paap F-statistic and the ratio of the IV to OLS estimates (*Trust (IV)/Trust*) support the quality of our IV estimation.

3.3 Type of Trust and Governance Quality

It could be the case that our variable of interest, *Trust*, correlates with people's confidence (or trust) in specific institutions, which might be the true driver of shareholder voting behavior. Hence, we re-estimate the regressions in column (4) of Table 2 and Table 3 by including measures of the confidence that respondents to WVS have in (1) companies, (2) the government, and (3) the press. Confidence in companies captures the average reputation of firms in a country, which might reduce the need for monitoring by shareholders. Confidence in the government captures the quality of a country's laws and regulations, above and beyond the country controls already included in our

regressions (i.e., ADRI, ASDI, legal origin, and rule of law). Confidence in the press 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'. To facilitate the interpretation of the results, we reversed the original Likert scale from WVS (which assigned a value of 1 for 'a great deal'). For each of the three levels of confidence, we use the average score for each country.

We present our regression results in Appendix D. Columns (1) to (5) show the results of the regressions explaining *% Votes cast* whereas columns (6) to (10) show the results of the regressions explaining *% Mgmt. "for" votes*. The regressions confirm our previous results as we still find a negative (positive) coefficient on *Trust*, significant at the 1% level, when used to explain *% Votes cast* (*% Mgmt. "for" votes*). When all three additional controls are added to the regressions, both confidence in companies and confidence in the government are statistically significant in the regression explaining *% Votes cast* (see column (4)) whereas only confidence in companies is significant when explaining *% Mgmt. "for" votes* (see column (9)). These results are intuitive as good corporate reputations, i.e., high confidence in companies, is expected to reduce shareholder monitoring. Finally, the effect of trust is also upheld when we use the variable *Residual trust* to explain votes cast and votes in support of management in columns (5) and (10), respectively. *Residual trust* is the residual from the regression of *Trust* on the three measures for confidence in companies, the government, and the press.[18]

[18] In additional robustness tests (not tabulated), we re-estimate the regressions shown in column (4) of Table 2 and Table 3 by replacing the variable *Trust* by two alternative measures of social capital: (1) the first principal component of three separate WVS measures, i.e., i) claiming government benefits to which one is not entitled, ii) avoiding fares

It may also be the case that *Trust* proxies for firm governance quality (beyond the controls used in our baseline regression model). To address this concern, we re-estimate the regression in column (4) of Table 2 and Table 3 including additional controls for corporate governance, namely the firm's ESG rating, ISS voting recommendations, total CEO compensation, and the ratio of the CEO's cash to total compensation.[19] The results are shown in Appendix E. ESG ratings (columns (1) and (5)) and ISS recommendations (columns (2) and (6)) are used as controls for the firm's overall governance quality, whereas the two controls based on CEO compensation (columns (3) and (7) as well as columns (4) and (8)) are used to address the specific concern that trust relates to shareholder voting because it affects CEO compensation and rent extraction. In this regard, Hoi, Wu, and Zhang (2019) provide evidence for the U.S.A. that social capital other than trust is associated with lower CEO total and equity pay. Our results for the variable *Trust* are upheld when we include these additional governance controls, as well as when we include the ISS recommendations and the two controls for management compensation at once (columns (5) and (10)). In line with the literature (e.g., Cai, Garner, and Walkling, 2009), ISS recommendations relate significantly and positively to votes in support of management, while the other additional controls have no explanatory power for shareholder voting in general.[20]

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on public transport, iii) accepting bribes (see Guiso, Sapienza, and Zingales, 2011), and (2) the average annual number of parking violations per diplomat in New York City (see Fisman and Miguel, 2007). While these measures generally confirm our results for *Trust*, we find that the latter is either the only or the most significant variable when it is included in the regressions together with the two alternative measures for social capital.

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

[20] A related concern is that trust correlates with country-level governance factors or cultural aspects, which may impact corporate governance. To address this concern, we re-estimate the regressions in column (4) of Table 2 and Table 3 controlling for the country governance indicators provided by the World Bank (i.e., control of corruption, government effectiveness, political stability, regulatory quality, and voice and accountability) and for the cultural factors proposed by Hofstede (2001). Regarding the latter, we control for power distance to take into account that governance may be less stringent in more hierarchical countries, as suggested by Urban (2019). We also control for Hofstede's

4. U.S. Evidence: County-level Inherited Trust and Institutional Investor Voting

To rule out that our results reflect unobserved country characteristics and to make sure that voting is comparable across firms (and countries), we repeat our main analysis for a single country, the U.S.A. We use voting data from ISS Voting Analytics for all Russell 3000 firms for the years 2003 to 2015, which we merge with accounting and stock price data from Compustat and CRSP. We examine the relation between shareholder voting and the level of trust that prevails in the U.S. county where the firm is headquartered.[21] To account for differences in shareholder voting (and other unobserved heterogeneity) across U.S. states, we control for U.S.-state fixed effects.

As most U.S. inhabitants are descendants of immigrants to the U.S.A., this enables us to use an ancestry-based measure of trust, which is preferable econometrically because such a measure is, at least in part, exogenous to regional factors influencing the formation of trust. In this regard, Algan and Cahuc (2010, p. 2060) find that *"inherited trust of descendants of US immigrants is significantly influenced by the country of origin […] of their forebears"*. Accordingly, we measure trust via the variable *Inherited trust*, which is the weighted average level of inherited trust that prevails in a U.S. county. This weighted average is calculated by multiplying the share of each

individualism measure because individualism might exacerbate the free-rider problem of voting, leading to a lower percentage of votes cast. The results for the additional controls for country governance indicators are presented in Table IA.3 and those for the Hofstede factors are shown in Table IA.4 of the Internet Appendix. The coefficient on *Trust* remains significant at the 1% level when we include these controls. As shown in Table IA.5, our results are also robust to accounting for different levels of stock market participation across countries (using data from Giannetti and Koskinen, 2010). This test addresses the concern that trust relates to shareholder voting only because it increases stock market participation (see Guiso, Sapienza, and Zingales, 2008) and hence the fraction of less sophisticated (retail) investors who tend to monitor less.

[21] To reduce country-specific heterogeneity, we also re-estimate the regressions shown in Table 2 and Table 3 only for the European countries in our sample. We find qualitatively similar results (see Internet Appendix, Table IA.6).

ancestry/nationality in a county (based on the 2000 U.S. Census) with the trust level reported in WVS for the respective nationality/country.

Table 8 presents the U.S. county-level evidence. Panel A shows that mean and median *Inherited trust* is 36%, which is almost identical to the WVS (wave six) trust level of 35% for the U.S.A. In terms of voting, mean (median) *% Mgmt. "for" votes* is 93% (96%), consistent with the numbers reported in the extant literature (e.g., Cai, Garner, and Walkling, 2009), while mean (median) *% Votes cast* is 79% (83%). This high level of shareholder participation can be attributed to the high institutional ownership (median of 64%) of U.S. firms in conjunction with institutional investors' fiduciary duties towards their clients (see Investment Advisers Act of 1940 and Employee Retirement Security Act (ERISA) of 1974). The high level of participation and the institutional setting run against us finding a relation between *Inherited trust* and *% Votes cast*.

Panel B presents the results from regressions of *% Votes cast* and *% Mgmt. "for" votes* on *Inherited trust* and the same firm and ownership controls as in our baseline regressions from Table 2 and Table 3, along with county-level controls, i.e., *% College*, *Household income*, *Median age*, *Non-white population*, *Population density*, and *Population growth*, defined in Appendix A. Besides U.S.-state fixed effects, all regressions include (two-digit SIC) industry and year fixed effects. Corroborating our cross-country results, we find that *Inherited trust* is significantly associated with less shareholder voting participation and more votes in support of management proposals.[22] The results for *% Votes cast*, however, lose statistical significance when we account for the ownership

[22] When we re-estimate the regressions shown in Table 2 and Table 3 with an extended sample that includes the U.S.A. (by merging the U.S. data with the non-U.S. ISS Voting Analytics Global database), U.S. firms account for up to 36% of all observations. More importantly, our results remain qualitatively similar. See Table IA.8 of the Internet Appendix.

structure of U.S. firms (see column (3)), which indicates the importance of the combination of high ownership by U.S. institutional investors and their extensive fiduciary duties.

As a final test, we examine the voting behavior of U.S. institutional investors in both their foreign and domestic investee firms using N-PX filing data. Since 2003, the Securities and Exchange Commission (SEC) has mandated U.S. institutional investors to report their voting decisions, which are filed via form N-PX. This data enables us to address two main concerns about our study. First, by focusing on the voting behavior of U.S. institutional investors, we can rule out that differences in investor origin and type explain our results. We can also answer the question of whether the relation between trust and shareholder voting holds for professional investors.[23] Second, for the foreign investee firms of U.S. institutional investors, we can exploit variation in the levels of societal trust for the same firm and country over time, i.e., over up to three WVS waves (i.e., waves four to six). This variation allows us to use firm fixed effects, whereby we account for any unobservable time-invariant country- and firm-specific heterogeneity and ensure that voting is comparable across firms.

To analyze the N-PX filing data, we use the Russell 3000 firm-level data (from the previous test) for domestic firms and merge the firm data for foreign firms from Thomson Reuters Eikon using the usual security identifiers (i.e., CUSIP, ISIN, and SEDOL). We aggregate voting decisions of U.S. investment companies at the investee-firm level. Specifically, for each firm we take all

[23] In this context, the results in Table 4 show that the negative relation between trust and shareholder monitoring via voting is also statistically significant for the sub-sample of firms with below-median free float, suggesting that trust also matters to more sophisticated (institutional) investors. For example, trust may matter to these investors as they typically hold large portfolios including numerous investee firms, which makes the optimal allocation of monitoring and voting efforts an important task for them, and/or because they may be able to make use of the predictive power of the trust-voting relation enabling them to steer their monitoring effort to firms where their voting is decisive.

management proposals into account and calculate the percentage of "for" votes (i.e., *% Mgmt. "for" votes (N-PX)*) as the ratio of the number of "for" votes to the number of all votes cast by U.S. institutional investors. For U.S. investee firms, we measure trust at the county level as in the previous analysis. For foreign investee firms, the variable *Trust (WVS waves 4, 5, 6)* is the WVS trust measure from one of the three WVS waves (i.e., waves four, five or six). For each fiscal year, we assign the level of trust from the respective WVS wave that covers the year (e.g., fiscal years 2005-2009 are matched with trust data from wave five, and fiscal years 2010-2015 are matched with trust data from wave six). That is, we allow for societal trust, although it has been shown to be persistent over time, to be subject to global influences (e.g., war and migration) and exogenous shocks that may cause changes.

Table 9 presents the results for the voting behavior of U.S. institutional investors between 2003 and 2015. Panel A provides summary statistics for the foreign investee firms, which we do not discuss for the sake of brevity. Panel B shows the results of regressions of *% Mgmt. "for" votes (N-PX)* on the variables of interest, i.e., *Trust (WVS waves 4, 5, 6)* (see specifications (1) and (2)) or *Inherited Trust* (see specifications (3) and (4)), along with the same (time-varying) controls as used before. Accounting for unobserved country- and U.S.-state level heterogeneity, respectively, we find the coefficients on both variables of interest to be positive and significant (at the 10% level or better). Thus, U.S. institutional investors vote more in support of management-initiated proposals at shareholder meetings of investee firms headquartered in countries (U.S. counties) with higher levels of societal trust.

Overall, the evidence in this section strongly supports our main finding that shareholder monitoring via voting is lower when societal trust is higher. Importantly, the evidence rules out that unobserved heterogeneity across different countries or investors drives our results.

5. Conclusion

To the best of our knowledge, this is the first study to provide empirical evidence on the relation between trust in others and shareholder monitoring via voting, i.e., the votes cast at shareholder meetings and the percentage of votes in support of management proposals. In line with the extant literature, we hypothesize that in high-trust countries shareholders are less concerned about being expropriated and therefore spend less time on monitoring their holdings.

We find consistent evidence that trust is associated with fewer votes cast at shareholder meetings and more votes in favor of management proposals. Our results are robust to the inclusion of extensive sets of control variables, as well as to a battery of robustness tests including terrorist attacks as transitory shocks to trust, instrumental variables regressions, the use of inherited trust at the U.S.-county level, and an analysis of U.S. institutional investor voting. Importantly, we also find the negative relation between low levels of shareholder monitoring on the one side and future firm performance and value on the other side to be weaker in high-trust countries. Hence, shareholder monitoring tends to create less value in high-trust countries where managers are less likely to exploit the trust and discretion shareholders grant them, consistent with trust being an equilibrium phenomenon.

Our study generates important information for investors and proxy advisors as well as policy makers. In particular, our study helps explain the significant differences in voting participation by shareholders across countries and provides information on the conditions in which shareholder participation is greater. It further provides information on when shareholder voting is more likely to create value. This information is important for investors and proxy advisors, who benefit from understanding how agency problems and the value of monitoring via voting vary across countries. Foreign investors, in particular, may use this information to optimally allocate their voting efforts.

Our evidence is also important for regulators intent on increasing minority shareholder involvement in publicly listed firms to ensure representative voting results and effective monitoring.

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Figure 1: Trust and shareholder voting behavior per country

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

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

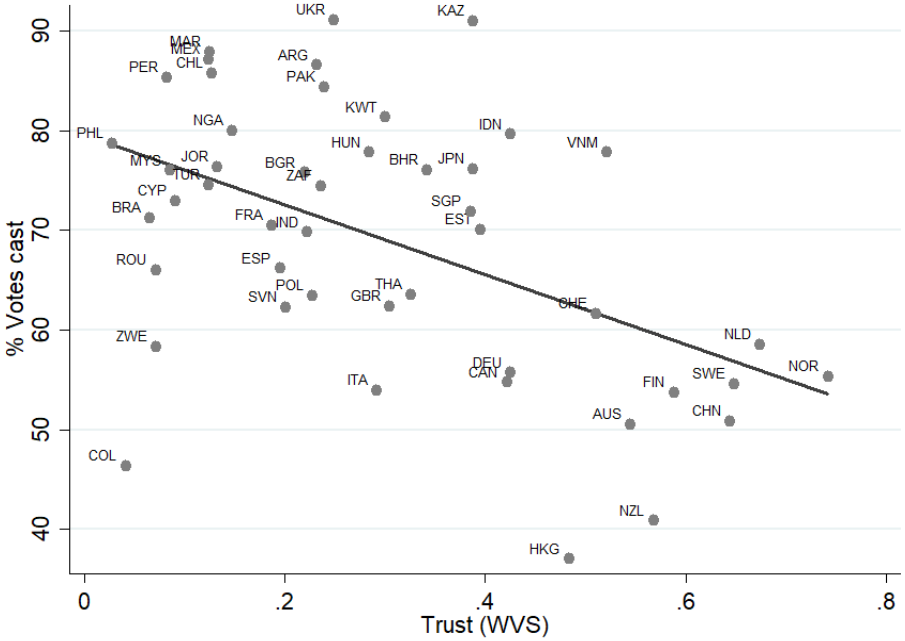

Figure 1b: Average percentage of votes "for" management and trust per country

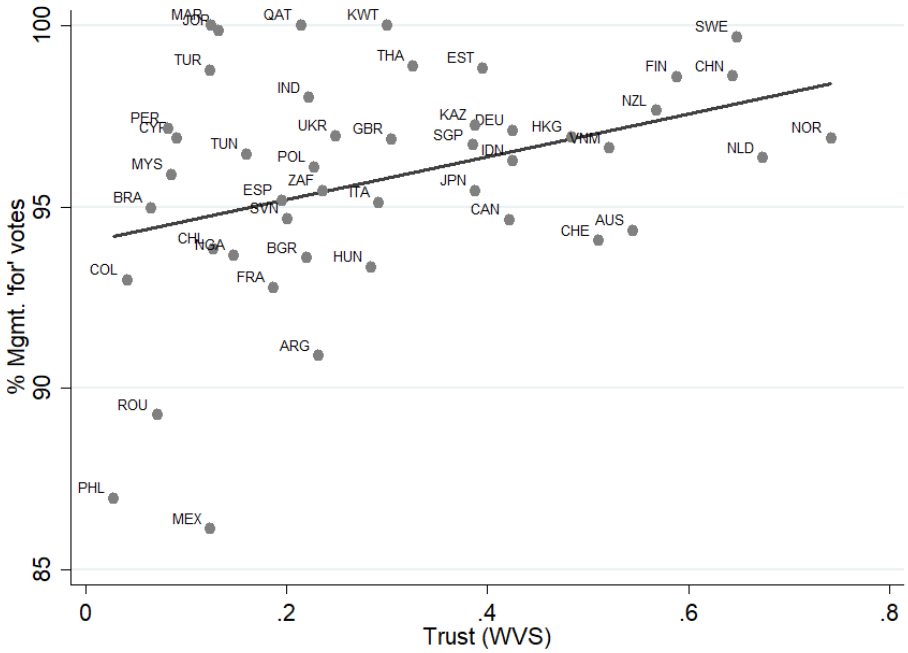

Table 1: Summary statistics

Panel A shows country-level summary statistics for the variables *% Votes cast*, *% Mgmt. "for" votes*, and *Trust* for those countries with available firm-level voting data, data on firm characteristics, and ownership data. *% Votes cast* is the average percentage of votes cast across the various decisions up for voting at a given shareholder meeting. *% Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. Panel B shows summary statistics for accounting- and market-based characteristics, ownership characteristics, other firm characteristics and country characteristics at the firm level. Panel C reports summary statistics for different types of proposals, i.e., management- and shareholder-initiated proposals as well as the following four types of management-initiated proposals: *Directors*, *Capitalization*, *M&A*, and *Compensation*. The panel reports the average percentage of votes in support of each type of proposal as well as it 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

	Trust	% Votes cast		% Mgmt. "for" votes		Observations	
Country		**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
Avg / Total	**0.45**	**59.34**	**20.45**	**96.45**	**6.52**	**14,085**	**27,645**

Panel B: Firm-level summary statistics for control variables

	p50	p25	p75	Mean	Std. Dev.	N
Firm characteristics:						
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
Ownership characteristics:						
% 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
Country characteristics:						
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		Shareholder-initiated		Management-initiated proposals by category							
					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
Avg/Total	**96.26**	**194,548**	**73.71**	**2,632**	**95.82**	**85,938**	**95.80**	**24,870**	**97.01**	**14,619**	**91.55**	**15,334**

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. Results remain significant when we cluster standard errors by country (see Internet Appendix). All specifications include year and industry fixed effects as well as largest investor type and legal origin 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**				
	(1)	(2)	(3)	(4)	(5)
Trust	**-41.765*** **	**-35.605*** **	**-31.091*** **	**-41.747*** **	**-41.372*** **
	(-32.14)	**(-23.44)**	**(-6.25)**	**(-6.15)**	**(-6.04)**
3-year avg ROE		3.510***	3.261***	3.183***	3.319***
		(4.37)	(3.94)	(3.93)	(4.00)
Firm age		0.039***	0.026*	0.027**	0.031**
		(2.98)	(1.80)	(1.99)	(2.26)
Leverage		-1.885	-2.251*	-0.792	-0.498
		(-1.60)	(-1.87)	(-0.67)	(-0.40)
Ln(market cap)		1.517***	2.189***	2.286***	2.217***
		(8.61)	(10.60)	(11.01)	(10.48)
MTB		0.001	0.002	0.001	0.000
		(0.66)	(0.43)	(0.18)	(0.08)
Special meeting		-4.731***	-3.774***	-3.317***	-3.307***
		(-15.09)	(-12.25)	(-11.09)	(-10.55)
Stock return		-1.147***	-0.785**	-0.692**	-0.897**
		(-3.29)	(-2.23)	(-1.98)	(-2.46)
% Free float		-0.256***	-0.244***	-0.261***	-0.253***
		(-13.40)	(-12.12)	(-12.94)	(-12.19)
% Shares foreign investors		0.109***	0.108***	0.107***	0.108***
		(8.46)	(7.72)	(7.64)	(7.76)
% Shares institutional investors		-0.243***	-0.285***	-0.279***	-0.260***
		(-10.88)	(-11.80)	(-11.50)	(-10.61)
% Shares largest investor		0.004	0.036	0.031	0.028
		(0.09)	(0.92)	(0.76)	(0.69)
Herfindahl Top 10 investors		0.001***	0.001***	0.001***	0.001***
		(3.52)	(3.10)	(2.75)	(2.99)
Djankov ADRI			3.319***	-3.268***	-3.122***
			(7.57)	(-3.75)	(-3.55)
Djankov ASDI			11.228**	-5.467	-4.393
			(2.37)	(-0.83)	(-0.66)
GDP per capita			0.000**	0.000***	0.000**
			(2.18)	(2.65)	(2.49)
Market cap/GDP			-0.011***	0.007**	0.006**
			(-5.61)	(2.31)	(2.04)
Rule of law			-1.839	5.566***	5.645***
			(-1.49)	(3.73)	(3.73)
Avg trust foreign investors					-3.816
					(-1.62)
Sub-continent FE	No	No	No	Yes	Yes
Djankov legal origin FE	No	No	Yes	Yes	Yes
Largest investor type FE	No	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	20,716	14,085	13,383	13,383	12,202
Adjusted R-squared	0.219	0.406	0.431	0.455	0.452

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 (Panel A). *Directors*, *Capitalization*, *M&A* and *Compensation* is the average percentage of votes cast in support of the respective management proposal types (Panel B). *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. Results remain significant when we cluster standard errors by country (see Internet Appendix). All specifications include year and industry fixed effects as well as largest investor type and legal origin 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: % Mgmt. "for" votes

Dep. variables:	% Mgmt. "for" votes				
	(1)	(2)	(3)	(4)	(5)
Trust	**5.723*** **	**4.332*** **	**4.929*** **	**12.809*** **	**12.718*** **
	(18.50)	**(10.07)**	**(4.19)**	**(9.02)**	**(9.00)**
3-year avg ROE		0.399***	-0.004	-0.025	-0.015
		(2.75)	(-0.02)	(-0.18)	(-0.10)
Firm age		-0.009***	-0.000	0.003	0.003
		(-4.21)	(-0.03)	(1.15)	(1.39)
Leverage		0.057	-0.361	-0.481	-0.537
		(0.11)	(-0.75)	(-1.01)	(-1.07)
Ln(market cap)		0.135***	-0.023	-0.048	-0.040
		(3.78)	(-0.60)	(-1.28)	(-1.03)
MTB		0.000	-0.000	-0.000	-0.000
		(0.59)	(-0.13)	(-0.10)	(-0.10)
Special meeting		-0.300***	-0.725***	-0.718***	-0.732***
		(-2.73)	(-6.41)	(-6.25)	(-6.04)
Stock return		0.406***	0.377***	0.403***	0.404***
		(4.76)	(4.47)	(4.82)	(4.77)
% Free float		-0.034***	-0.022***	-0.022***	-0.025***
		(-8.90)	(-5.61)	(-5.76)	(-6.41)
% Shares foreign investors		-0.022***	-0.016***	-0.017***	-0.018***
		(-7.34)	(-5.02)	(-5.38)	(-5.44)
% Shares institutional investors		-0.035***	-0.041***	-0.039***	-0.040***
		(-7.32)	(-7.06)	(-6.56)	(-6.81)
% Shares largest investor		0.005	0.003	0.002	0.002
		(0.75)	(0.38)	(0.26)	(0.29)
Herfindahl Top 10 investors		0.000	0.000*	0.000*	0.000
		(1.01)	(1.79)	(1.91)	(1.62)
Djankov ADRI			-0.050	0.897***	0.819***
			(-0.27)	(3.78)	(3.54)
Djankov ASDI			-1.104	3.300***	2.883**
			(-1.32)	(2.61)	(2.32)
GDP per capita			-0.000***	-0.000***	-0.000***
			(-2.92)	(-4.75)	(-4.82)
Market cap/GDP			0.001**	-0.004***	-0.004***
			(2.13)	(-4.24)	(-4.37)
Rule of law			-0.522	0.241	0.301
			(-1.37)	(0.53)	(0.66)
Avg trust foreign investors					0.601
					(1.11)
Sub-continent FE	No	No	No	Yes	Yes
Djankov legal origin FE	No	No	Yes	Yes	Yes
Largest investor type FE	No	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	39,436	27,645	25,838	25,838	24,295
Adjusted R-squared	0.024	0.051	0.083	0.091	0.091

Panel B: % Mgmt. "for" votes by proposal type

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

Table 4: Trust, shareholder voting, and differences across corporate ownership (with country fixed effects)

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), the interaction of *Trust* and *High free float* (which is a binary variable equal to one if the firm's free float is above the sample median) or the interaction of *Trust* and *High foreign ownership* (which is a binary variable equal to one if the share of foreign investors among the firm's top 50 largest investors is above the sample median), firm characteristics, ownership characteristics and country characteristics. Firm, ownership, and country controls (not displayed) are similar to those used in Table 2 and 3. *% Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. *% Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. Results for *Trust*High foreign ownership* remain significant when we cluster standard errors by country (see Internet Appendix). All specifications include year and industry fixed effects as well as fixed effects for the type of largest investor. Investor type classifications are: bank, corporation, family, government, institutional and management. Specifications with even (odd) numbers also include country fixed effects (legal origin and sub-continent fixed effects). 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)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Trust	-38.364***		-55.972***		12.068***		14.296***	
	(-5.72)		(-7.77)		(8.32)		(9.46)	
High free float	-2.736*	-3.615**			-0.829**	-0.758**		
	(-1.85)	(-2.49)			(-2.35)	(-2.16)		
Trust * High free float	**-6.538****	**-5.057****			**1.573****	**1.436***		
	(-2.56)	**(-2.01)**			**(2.14)**	**(1.95)**		
High foreign ownership			-7.987***	-7.272***			0.686*	0.665*
			(-6.31)	(-5.78)			(1.86)	(1.86)
Trust * High foreign ownership			**25.400*****	**23.728*****			**-2.898*****	**-2.878*****
			(8.50)	**(7.91)**			**(-3.52)**	**(-3.57)**
Country FE	No	**Yes**	No	**Yes**	No	**Yes**	No	**Yes**
Subcontinent FE	Yes	No	Yes	No	Yes	No	Yes	No
Country 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
Djankov legal origin FE	Yes	No	Yes	No	Yes	No	Yes	No
Largest investor 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	13,380	13,383	13,380	25,838	25,837	25,838	25,837
Adj. R-squared	0.462	0.471	0.465	0.473	0.091	0.093	0.092	0.095

Table 5: Trust, shareholder voting, and future firm performance (with country fixed effects)

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 2 and 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 is equal to one if *% Mgmt. "for" votes* is larger than its sample median value. *Low votes cast* is an indicator variable, which is equal to one 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. Results remain significant when we cluster standard errors by country (see Internet Appendix). All specifications include year and industry fixed effects as well as fixed effects for the type of largest investor. Investor type classifications are: bank, corporation, family, government, institutional and management. Specifications with even (odd) numbers also include country fixed effects (legal origin fixed effects). Legal origins are: English, French, and German. ***, **, * denote statistical significance at the 1%, 5% and 10% level, respectively.

	% Votes cast				**% Mgmt. "for" votes**			
Dep. variables:	**Stock return$_{t+1}$**		**Tobin's Q$_{t+1}$**		**Stock return$_{t+1}$**		**Tobin's Q$_{t+1}$**	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Trust	0.445***		1.131***		0.357***		0.643***	
	(4.09)		(4.10)		(4.46)		(3.60)	
Low votes cast	-0.115***	-0.118***	-0.353***	-0.386***				
	(-3.05)	(-3.20)	(-4.43)	(-4.85)				
Trust * Low votes cast	**0.226*** **	**0.211*** **	**0.862*** **	**0.864*** **				
	(3.16)	**(2.98)**	**(5.10)**	**(5.07)**				
High mgmt. "for" votes					-0.105***	-0.083***	-0.125**	-0.187***
					(-4.39)	(-3.39)	(-2.38)	(-3.41)
Trust * High mgmt. "for"					**0.338*** **	**0.296*** **	**0.775*** **	**0.881*** **
					(6.56)	**(5.65)**	**(6.76)**	**(7.43)**
Country FE	No	**Yes**	No	**Yes**	No	**Yes**	No	**Yes**
Country 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
Djankov legal origin FE	Yes	No	Yes	No	Yes	No	Yes	No
Largest investor 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	13,376	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 6: Terrorist attacks as transitory negative shocks to trust

This table reports the results from OLS regressions of *% Votes cast* and *% Mgmt. "for" votes* on different measures of terrorist attacks. Following Ahern (2018), we use terrorist attacks as exogenous shocks that cause a temporary reduction in trust in others. We define shareholder meetings as treated if a terrorist attack took place within two weeks / one month before the meeting date, which mitigates concerns that institutional or economic responses to terrorism cause our results. *Terror* is an indicator variable that equals one if there was a terrorist attack with at least one fatality within two weeks (i.e., *Terror (2 weeks)*) or one month (i.e., *Terror (1 month)*) of the shareholder meeting (i.e., both AGM and special meeting) in the respective company's country of headquarters. *Terror*ln(# fatalities)* is an interaction term of the variable *Terror* with the number of people that died in the respective terrorist attack (fatalities). Panel B shows results for the same variables based on a sample that excludes terrorist attacks with a negative stock market reaction to further mitigate concerns that economic responses to terrorism cause our results. *% Votes cast* is the average percentage of votes cast irrespective the concrete voting decision at a given shareholder meeting. *% Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. Results remain significant when we cluster standard errors by country (see Internet Appendix). All specifications include year, industry and country fixed effects. ***, **, * denote statistical significance at the 1%, 5% and 10% level, respectively.

Panel A: All terrorist attacks

	% Votes cast				**% Mgmt. "for" votes**			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Terror (2 weeks)	**0.835*****				**-0.330*****			
	(2.70)				**(-3.29)**			
Terror (2 weeks)*ln(# fatalities)		**0.471*****				**-0.114*****		
		(3.51)				**(-2.63)**		
Terror (1 month)			**0.417**				**-0.232****	
			(1.40)				**(-2.31)**	
Terror (1 month)*ln(# fatalities)				**0.284****				**-0.123*****
				(2.45)				**(-3.08)**
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	20,712	20,712	20,712	20,712	39,433	39,433	39,433	39,433
Adjusted R-squared	0.287	0.288	0.287	0.287	0.075	0.075	0.075	0.075

Panel B: Excluding terrorist attacks with negative average stock market reaction

	% Votes cast				% Mgmt. "for" votes			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Terror (2 weeks)$_{AR>0}$	**1.088*** (3.30)**				**-0.310*** (-3.27)**			
Terror (2 weeks)$_{AR>0}$*ln(# fatalities)		**0.490*** (3.50)**				**-0.109*** (-2.65)**		
Terror (1 month)$_{AR>0}$			**0.689** (2.22)**				**-0.199** (-2.19)**	
Terror (1 month)$_{AR>0}$*ln(# fatalities)				**0.292** (2.51)**				**-0.114*** (-3.12)**
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	20,712	20,712	20,712	20,712	39,433	39,433	39,433	39,433
Adjusted R-squared	0.287	0.288	0.287	0.287	0.075	0.075	0.075	0.075

Table 7: Instrumental variable (IV) regressions

This table reports the coefficients from instrumental variable regressions. Specifications (1) and (3) show the results from the first-stage regressions. Following Putnam (1993), La Porta et al. (1997), and Zak and Knack (2001), we instrument *Trust* with *% Hierarchical religion in 1900* (Panel A). Additionally, we instrument *Trust* with the *Herfindahl index of top 5 surnames* in a given country (Panel B). *% Hierarchical religion in 1900* is the proportion of people in a country in the year 1900 who belonged to the religious groups of Roman Catholics or Muslims. Specifications (2) and (4) in both panels report the second-stage results, with *Trust* being instrumented by *% Hierarchical religion in 1900* (Panel A) or by the *Herfindahl index of top 5 surnames* in a given country. The instrumented *Trust* variable is denoted *Trust (IV)*. *% Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting. *% Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. Results remain significant when we cluster standard errors by country (see Internet Appendix). All specifications include sub-continent, year and industry fixed effects as well as fixed effects for the type of largest investor and for legal origins. 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: % Hierarchical religions in 1900

	First Stage	Second Stage	First Stage	Second Stage
Dep. variables:	**Trust**	**% Votes cast**	**Trust**	**% Mgmt. "for" votes**
	(1)	(2)	(3)	(4)
% Hierarchical religion in 1900	**-0.563*** **		**-0.523*** **	
	(-22.33)		**(-35.14)**	
Trust (IV)		**-65.516*** **		**14.992*** **
		(-7.66)		**(6.40)**
3-year avg ROE	-0.000	3.254***	-0.000	0.042
	(-0.41)	(3.96)	(-0.39)	(0.26)
Firm Age	0.000***	0.030**	-0.000	0.004
	(2.80)	(2.15)	(-1.33)	(1.48)
Leverage	-0.001	-0.773	0.001	-0.587
	(-0.69)	(-0.63)	(1.64)	(-1.16)
Ln(market cap)	0.000	2.286***	0.000	-0.017
	(0.51)	(10.47)	(0.09)	(-0.44)
MTB	0.000	0.000	-0.000	-0.000
	(0.84)	(0.11)	(-0.90)	(-0.12)
Special meeting	-0.002***	-2.957***	-0.001**	-0.731***
	(-4.82)	(-9.82)	(-2.03)	(-6.13)
Stock return	0.001***	-0.507	0.000	0.324***
	(3.02)	(-1.42)	(1.11)	(3.72)
% Free float	0.000	-0.269***	0.000	-0.021***
	(0.59)	(-13.10)	(1.24)	(-5.12)
% Shares foreign investors	0.000***	0.118***	0.000***	-0.019***
	(2.61)	(7.97)	(2.92)	(-4.98)
% Shares institutional investors	-0.000**	-0.296***	0.000***	-0.029***
	(-2.31)	(-12.11)	(3.29)	(-4.69)
% Shares largest investor	-0.000	0.040	0.000	0.006
	(-0.03)	(0.97)	(1.16)	(0.79)
Herfindahl Index Top 10 Investors	-0.000	0.001**	-0.000	0.000
	(-0.10)	(2.57)	(-0.30)	(1.20)
Djankov ADRI	-0.061***	-6.691***	-0.067***	1.372***
	(-9.00)	(-5.18)	(-12.54)	(3.19)
Djankov ASDI	0.025	-10.321	0.042**	3.867***
	(0.86)	(-1.35)	(2.27)	(2.95)
GDP per capita	0.000***	0.000***	0.000***	-0.000***
	(6.81)	(4.49)	(14.27)	(-4.13)
Market cap/GDP	-0.000	-0.037***	0.000**	0.000
	(-0.63)	(-3.09)	(2.26)	(0.03)
Rule of Law	-0.036***	6.788***	-0.009	-0.018
	(-6.94)	(4.18)	(-1.53)	(-0.04)
Sub-continent FE	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Kleibergen-Paap F-statistic	498.43		1,234.86	
Ratio Trust (IV) / Trust		1.57		1.17
Observations	12,689		23,490	
Adj. R-squared		0.477		0.100

Panel B: Herfindahl index of top 5 surnames by country

	First Stage	Second Stage	First Stage	Second Stage
Dep. variables:	**Trust**	**% Votes cast**	**Trust**	**% Mgmt. "for" votes**
	(1)	(2)	(3)	(4)
Herfindahl index top 5 surnames	**20.115*** **		**20.220*** **	
	(43.54)		**(66.81)**	
Trust (IV)		**-32.499*** **		**11.739*** **
		(-3.53)		**(5.23)**
3-year avg ROE	-0.000	3.198***	-0.000	0.050
	(-0.80)	(3.10)	(-1.14)	(0.29)
Firm Age	0.000**	-0.008	0.000**	0.003
	(2.06)	(-0.41)	(2.37)	(1.10)
Leverage	0.001	-1.921	0.001	-0.632
	(0.93)	(-1.29)	(1.45)	(-1.12)
Ln(market cap)	-0.000	2.328***	0.000***	-0.006
	(-0.47)	(7.83)	(2.77)	(-0.13)
MTB	0.000	-0.009	0.000	-0.000
	(1.64)	(-1.59)	(0.37)	(-0.18)
Special meeting	-0.001***	-2.731***	-0.002***	-0.846***
	(-3.58)	(-8.46)	(-7.35)	(-6.06)
Stock return	-0.001***	-0.787*	0.002***	0.331***
	(-3.07)	(-1.75)	(8.77)	(3.33)
% Free float	-0.000	-0.277***	0.000	-0.019***
	(-0.07)	(-10.47)	(0.14)	(-4.14)
% Shares foreign investors	0.000	0.174***	-0.000	-0.019***
	(0.49)	(9.15)	(-0.63)	(-4.70)
% Shares institutional investors	0.000*	-0.331***	-0.000	-0.027***
	(1.86)	(-10.17)	(-0.42)	(-3.79)
% Shares largest investor	0.000	0.062	0.000	0.007
	(1.10)	(1.11)	(1.27)	(0.80)
Herfindahl Index Top 10 Investors	-0.000	0.001**	-0.000	0.000
	(-1.59)	(2.29)	(-1.22)	(1.25)
Djankov ADRI	-0.150***	-0.414	-0.153***	0.779**
	(-66.30)	(-0.38)	(-80.77)	(2.13)
Djankov ASDI	-0.473***	-22.259*	-0.305***	7.498***
	(-11.82)	(-1.83)	(-15.19)	(2.91)
GDP per capita	0.000***	0.000***	0.000***	-0.000**
	(24.05)	(4.34)	(27.78)	(-2.25)
Market cap/GDP	-0.000***	-0.064**	-0.001***	-0.007
	(-6.82)	(-2.50)	(-20.73)	(-1.38)
Rule of Law	0.186***	2.891	0.206***	-0.057
	(17.49)	(1.25)	(29.50)	(-0.09)
Sub-continent FE	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Kleibergen-Paap F-statistic	1,895.54		4,464.21	
Ratio Trust (IV) / Trust		0.78		0.92
Observations	9,380		20,111	
Adj. R-squared		0.482		0.103

Table 8: Inherited trust and voting – U.S. county-level evidence (with state fixed effects)

This table reports OLS regression results of *% Votes cast* and *% Mgmt. "for" votes* on *Inherited trust*, firm characteristics, county characteristics, and ownership characteristics for a sample of U.S. Russell 3000 companies between 2003 and 2015. *Inherited trust* is the weighted average WVS trust level of a populations' ancestors in the county where the firm is headquartered. *% Votes cast* is the average percentage of votes cast irrespective of the voting decision at a given shareholder meeting. *% Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals at a given shareholder meeting. All regressions include a constant (not reported). Robust t-statistics (in parentheses) are based on standard errors clustered by firm. Results remain significant when we cluster standard errors by U.S. county (see Internet Appendix). All specifications include year, industry, and U.S. state fixed effects as well as fixed effects for the type of largest investor. Investor type classifications are: bank, corporation, family, government, institutional and management. ***, **, * denote statistical significance at the 1%, 5% and 10% level, respectively.

Panel A: Summary statistics

	p50	p25	p75	Mean	Std. Dev.	N
Inherited trust	0.362	0.342	0.375	0.362	0.034	36,027
Voting characteristics						
% Votes cast	0.829	0.728	0.892	0.790	0.147	35,551
% Mgmt. "for" votes	0.963	0.923	0.984	0.934	0.108	36,027
Firm characteristics:						
3-year avg ROE	0.081	-0.002	0.144	0.027	0.467	23,551
Firm age	15	7	27	19.407	17.133	23,551
Leverage	0.361	0.178	0.598	0.407	0.270	23,551
Ln(market cap ($))	6.706	5.636	7.907	6.804	1.731	23,551
MTB	1.387	1.056	2.084	1.859	1.328	23,551
Special meeting				0.049	0.216	23,551
Stock return	0.127	-0.120	0.389	0.201	0.573	23,551
Ownership characteristics:						
% Free float	22.878	11.360	37.898	26.130	19.280	23,344
% Shares foreign investors	1.528	0.385	4.211	3.864	7.714	23,344
% Shares institutional investors	64.355	45.826	79.019	61.044	23.669	23,344
% Shares largest investor	10.773	7.946	15.456	14.984	13.097	23,344
Herfindahl Top 10 investors	323.082	199.726	539.396	611.445	999.193	23,344
Largest investor = bank				0.000	0.000	23,344
Largest investor = corporation				0.097	0.296	23,344
Largest investor = family				0.160	0.367	23,344
Largest investor = government				0.001	0.032	23,344
Largest investor = management				0.006	0.076	23,344
Largest investor = inst. investor				0.717	0.451	23,344
County characteristics:						
% College	61.500	53.500	67.500	60.605	9.264	23,551
Household income	42,162.700	36,041.560	52,797.680	57,627.930	18,687.730	23,551
Median age	42.500	42.500	42.500	42.304	0.820	23,551
Non-white population	0.311	0.195	0.434	0.314	0.152	23,551
Population density	1,351.783	647.331	2,173.495	3,958.310	10,223.250	23,551
Population growth	0.007	0.002	0.013	0.008	0.010	23,551

Panel B: Regression results

Dep. variables:	% Votes cast			% Mgmt. "for" votes		
	(1)	(2)	(3)	(4)	(5)	(6)
Inherited Trust	**-0.265*** **	**-0.181* **	**0.041**	**0.116*** **	**0.132** **	**0.152*** **
	(-3.04)	**(-1.87)**	**(0.55)**	**(2.61)**	**(2.49)**	**(2.91)**
3-year avg ROE		0.008***	0.006***		0.001	0.001
		(2.98)	(2.97)		(1.08)	(1.05)
Firm age		-0.001***	0.000		-0.000	-0.000
		(-7.07)	(0.06)		(-1.07)	(-0.83)
Leverage		-0.043***	-0.037***		-0.000	0.001
		(-5.15)	(-5.31)		(-0.11)	(0.18)
Ln(market cap)		0.022***	0.019***		0.004***	0.005***
		(20.90)	(24.36)		(9.77)	(11.72)
MTB		-0.009***	-0.006***		0.001	0.001
		(-6.48)	(-6.09)		(1.17)	(0.94)
Special meeting		-0.138***	-0.136***		-0.147***	-0.145***
		(-21.30)	(-21.11)		(-17.98)	(-17.84)
Stock return		0.001	0.001		0.005***	0.005***
		(0.26)	(0.40)		(4.84)	(4.42)
% College		-0.000	-0.000		0.000	0.000
		(-0.38)	(-0.79)		(0.14)	(0.36)
Household income		0.000	-0.000		-0.000	-0.000
		(0.08)	(-0.46)		(-0.17)	(-0.19)
Median age		0.002	0.001		-0.000	0.000
		(0.83)	(0.43)		(-0.04)	(0.22)
Non-white population		0.020	0.004		0.010	0.009
		(1.30)	(0.35)		(1.30)	(1.13)
Population density		-0.000	-0.000		-0.000	-0.000
		(-1.51)	(-0.76)		(-0.65)	(-1.00)
Population growth		0.348**	0.249**		0.036	0.046
		(2.51)	(2.03)		(0.40)	(0.51)
% Free float			-0.003***			-0.000***
			(-19.12)			(-2.85)
% Shares foreign investors			-0.001***			0.000
			(-5.69)			(0.93)
% Shares institutional investors			0.000*			-0.000***
			(1.70)			(-3.53)
% Shares largest investor			0.000			0.000
			(1.20)			(1.48)
Herfindahl Top 10 investors			0.000			0.000
			(1.51)			(0.92)
Largest investor type FE	No	No	Yes	No	No	Yes
U.S. state FE	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	35,551	23,289	23,086	36,027	23,551	23,344
Adjusted R-squared	0.222	0.324	0.446	0.036	0.160	0.165

Table 9: International and domestic voting behavior of U.S. institutional investors

Panel A reports summary statistics for a sample of international companies where voting data from U.S. institutional investors is available. Summary statistics for U.S. firms are shown in Panel A of Table 8. Panel B reports regression results of *% Mgmt. "for" votes (N-PX)* on *Trust*, firm characteristics, country characteristics (county characteristics), and ownership characteristics for a sample of international companies and U.S. Russell 3000 firms between 2003 and 2015. *Trust* is from WVS waves 4, 5 and 6, and 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'. *Inherited trust* is the weighted average WVS trust level of a populations' ancestors in the county where the firm is headquartered. *% Mgmt. "for" votes (N-PX)* is the average percentage of votes cast by U.S. institutional investors (extracted from N-PX filings) in support of management-initiated proposals at a given shareholder meeting. All regressions include a constant (not reported). Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year and largest investor type fixed effects. Investor type classifications are: bank, corporation, family, government, institutional and management. Specifications (1) and (2) also include firm fixed effects while specifications (3) and (4) include U.S. state fixed effects and industry fixed effects. ***, **, * denote statistical significance at the 1%, 5% and 10% level, respectively.

Panel A: Summary statistics of international firms

	p50	p25	p75	Mean	Std. Dev.	N
Trust (WVS waves 4, 5, 6)	0.388	0.297	0.391	0.363	0.135	39,249
Voting characteristics						
% Mgmt. "for" votes (N-PX)	0.917	0.819	1.000	0.884	0.135	39,249
Firm characteristics:						
3-year avg ROE	0.085	0.037	0.148	0.085	0.153	39,249
Firm age	15.000	8.000	30.000	21.484	18.375	39,249
Leverage	0.191	0.058	0.333	0.215	0.176	39,249
Ln(market cap ($))	6.343	5.279	7.657	6.531	1.638	39,249
MTB	1.267	0.786	2.168	1.882	2.012	39,249
Stock return	8.275	-15.420	38.563	19.499	59.967	39,249
Ownership characteristics:						
% Free float	49.593	31.857	67.256	50.467	24.363	39,249
% Shares foreign investors	5.242	1.478	14.921	12.605	17.999	39,249
% Shares institutional investors	8.262	2.848	17.971	12.890	14.027	39,249
% Shares largest investor	15.440	6.658	34.422	22.745	20.129	39,249
Herfindahl Top 10 investors	436.664	116.349	1,482.407	1,083.950	1,463.046	39,249
Largest investor = bank				0.070	0.255	39,249
Largest investor = corporation				0.510	0.500	39,249
Largest investor = family				0.191	0.393	39,249
Largest investor = government				0.025	0.155	39,249
Largest investor = management				0.011	0.106	39,249
Largest investor = inst. investor				0.193	0.395	39,249
Country characteristics:						
GDP per capita	43,671.680	10,751.540	45,687.270	32,430.830	18,120.090	30,041
Market cap/GDP	80.218	56.081	111.375	186.511	305.375	30,041
Rule of law	1.335	0.436	1.543	1.004	0.776	30,041

Panel B: Regression results with either firm or U.S. state fixed effects

Dep. variable:	% Mgmt. "for" votes (N-PX)			
	International firms		U.S. firms (Russell 3000)	
	(1)	(2)	(3)	(4)
Trust (WVS waves 4, 5, 6)	**0.072****	**0.061***		
	(2.24)	**(1.69)**		
Inherited Trust			**0.289*****	**0.347*****
			(3.86)	**(4.18)**
3-year avg ROE	0.006	0.009	0.002	0.002
	(0.78)	(1.00)	(0.83)	(0.95)
Firm Age	0.003	0.001	0.000**	0.000**
	(1.44)	(0.22)	(2.38)	(2.35)
Leverage	-0.049***	-0.027**	-0.013*	-0.013*
	(-4.51)	(-2.30)	(-1.73)	(-1.68)
Ln(market cap)	0.002	0.003	0.012***	0.012***
	(1.02)	(1.06)	(14.19)	(13.91)
MTB	0.000	0.000	-0.002*	-0.002
	(0.62)	(0.28)	(-1.69)	(-1.60)
Special meeting			-0.003	-0.003
			(-1.53)	(-1.43)
Stock return	0.000	0.000	-0.049***	-0.049***
	(1.36)	(1.02)	(-8.19)	(-8.24)
% Free float	0.000	0.000	0.000	0.000*
	(0.73)	(0.94)	(1.47)	(1.65)
% Shares foreign investors	0.000	0.000*	-0.000	-0.000
	(1.14)	(1.81)	(-1.35)	(-1.26)
% Shares institutional investors	0.000	0.000	0.001***	0.001***
	(0.14)	(0.66)	(5.05)	(5.20)
% Shares largest investor	-0.000	0.000	-0.001***	-0.001***
	(-0.18)	(0.25)	(-2.90)	(-2.65)
Herfindahl Index Top 10 Investors	-0.000	-0.000	-0.000*	-0.000**
	(-0.11)	(-0.45)	(-1.88)	(-2.01)
GDP per capita		-0.000		
		(-0.90)		
Market cap/GDP		-0.000***		
		(-3.24)		
Rule of Law		0.090***		
		(6.55)		
% College				-0.000
				(-0.39)
Household income				-0.000
				(-0.16)
Median age				0.001
				(0.64)
Non-white population				0.012
				(0.89)
Population density				-0.000
				(-0.46)
Population growth				0.023
				(0.17)
Largest investor type FE	Yes	Yes	Yes	Yes
Firm FE	**Yes**	**Yes**	No	No
U.S. state FE	No	No	**Yes**	**Yes**
Industry FE	No	No	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	39,249	30,041	22,029	21,732
Adjusted R-squared	0.383	0.408	0.146	0.146

Appendices

Appendix A: Variable definitions

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

Variable	Definition
Trust variables:	
Avg trust foreign investors	Weighted average of the level of trust that prevails in the countries where a firm's largest foreign investors are headquartered. Foreign investors among a firm's top 50 investors are considered. The weighted average is calculated using the percentage of shares held by each investor as the respective weights. (Sources: Eikon and WVS)
Inherited trust	Weighted average level of inherited trust that prevails in a U.S. county given the county's composition of its population. The weighted average is calculated based on the composition of the population (in terms of ancestries/nationalities) prevailing in a county according to the 2000 U.S. Census and the WVS trust measure by multiplying the share of a county's population with a given ancestry (e.g., French) by the trust level reported for the respective nationality/country (e.g., France) in the WVS. (Sources: U.S. Census and WVS)
Trust	Proportion of people in a country agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. (Source: WVS)
Voting variables:	
# Shareholder proposals	Number of proposals initiated by shareholders at a given shareholder meeting
% Mgmt. "against" votes	Average percentage of votes cast against management-initiated proposals at a given shareholder meeting.
% Mgmt. "for" votes	Average percentage of votes cast in support of firm management-initiated proposals at a given shareholder meeting.
% Mgmt. "for" votes adjusted for blockholder ownership	Average percentage of votes cast in support of firm management-initiated proposals at a given shareholder meeting minus the percentage of shares held by top 50 investors.
"For" vote	Indicator variables which equals one if the U.S. institutional investor voted for the given management proposal.
% Votes cast	Average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting.
% Votes cast adjusted for blockholder ownership	Average percentage of votes cast irrespective of the concrete voting decision at a given shareholder meeting minus the percentage of shares held by the top 50 investors.
Capitalization	Average percentage of votes cast in support of the firm management's recommendations with respect to capitalization-related agenda items at a given shareholder meeting.
Compensation	Average percentage of votes cast in support of the firm management's recommendations with respect to compensation-related agenda items at a given shareholder meeting.
Directors	Average percentage of votes cast in support of the firm management's recommendations with respect to director-related agenda items at a given shareholder meeting.
Dissent	Indicator variable, which equals one if the variable *% Mgmt. "for" votes* takes a value in the first quartile of its distribution.
High mgmt. "for" votes	Indicator variable, which takes the value one if *% Mgmt. "for" votes* is larger than its sample median value, and zero otherwise.
Low votes cast	Indicator variable, which takes on the value one if *% Votes cast* is lower than its sample median value, and zero otherwise.

M&A	Average percentage of votes cast in support of the firm management's recommendations with respect to M&A-related agenda items at a given shareholder meeting.
Mgmt. proposal rejected	Indicator variable which equals one if one management-initiated proposal received less than 50% of votes cast at a given shareholder meeting.
Firm and governance variables:	
% Free float	The percentage of shares not held by the top 50 largest investors, defined as the difference between 100% and the percentage of shares held by the top 50 largest investors for a given fiscal year.
% Shares domestic investors	The percentage of shares held by domestic investors for a given fiscal year.
% Shares foreign investors	The percentage of shares held by foreign investors for a given fiscal year.
% Shares institutional investors	The percentage of shares held by institutional investors for a given fiscal year winsorized at the 1st and 99th percentiles.
% Shares largest investor	The percentage of shares held by the largest investor.
3-year avg ROE	Three-year average return on equity, defined as net income divided by book value of equity for a given fiscal year winsorized at the 1st and 99th percentiles.
CEO cash/total compensation	The fraction of cash to total compensation of a firm's CEO. (Source: Capital IQ)
CEO total compensation	The total compensation of the firm's CEO. (Source: Capital IQ)
ESG rating	A firm's rating based on environmental, social and governance variables (Source: Eikon).
Firm age	The number of years since IPO for a given fiscal year.
Herfindahl top 10 investors	Herfindahl index based on the company's top 10 investors for a given fiscal year.
High foreign ownership	Indicator variable, which takes the value one if foreign ownership among the top 50 largest investors is larger than its sample median value, and zero otherwise.
High free float	Indicator variable, which takes the value one if the variable *% free float* takes on values larger than its sample median, and zero otherwise.
Largest investor = bank (or corporation or family or government or institutional investor or management)	6 separate indicator variables equal to one if the largest investor is i) a bank or ii) a corporation or iii) a family or iv) a government or v) an institutional investor or vi) firm management for a given fiscal year, and zero otherwise.
Leverage	The company's total debt divided by its total assets for a given fiscal year winsorized at the 5th and 95th percentiles.
Ln(market cap)	Natural logarithm of the company's total market capitalization (in $) for a given fiscal year. Total market capitalization (in $) is winsorized at the 5th and 95th percentiles.
MTB	Market-to-book ratio, defined as market capitalization divided by book value of equity for a given fiscal year winsorized at the 5th and 95th percentiles.
Special meeting	Indicator variable equal to one if the shareholders' vote in a special meeting, and zero otherwise.
Stock return	The company's stock market return for a given fiscal year winsorized at the 5th and 95th percentiles.
Tobin's Q	The company's market capitalization plus book value of total debt divided by the book value of total assets, winsorized at the 5th and 95th percentiles.
Country variables:	
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 French	Indicator variable equal to one if the company's country of headquarters is of French legal origin, and zero otherwise. (Source: Djankov et al., 2008)
Djankov German	Indicator variable equal to one if the company's country of headquarters is of German legal origin, and zero otherwise. (Source: Djankov et al., 2008)
GDP per capita	Country of headquarters' gross domestic product (GDP) per capita. (Source: World Bank World Development Indicators)
Market cap/GDP	Market capitalization as a percentage of the country's GDP for a given fiscal year. (Source: World Bank World Development Indicators)
Rule of law	Measures the extent to which agents have confidence in the quality of contract enforcement, property rights, the police, and the courts. (Source: World Bank)
Stock market participation	Domestic investors' participation rates per country (based on Giannetti and Koskinen, 2010).
U.S. county variables:	
% College	Annual % share of people in a county who are 25 years or older and have at least one year of college education. (Source: U.S. Census)
Household income	Per capita personal income in a county in a given year deflated to 2005 USD. (Source: Bureau of Economic Analysis)
Median age	Median age of people living in a county in a given year. (Source: U.S. Census)
Non-white population	One minus the percentage share of residents living in a county in a given year who are reported to be white. (Source: U.S. Census)
Population density	Number of people living in a county in a given year divided by the county's land area in sqm. (Sources: Bureau of Economic Analysis and U.S. Census)
Population growth	Annual growth rate of a county's population in a given year. (Source: Bureau of Economic Analysis)
Instrumental variables:	
% Hierarchical religion in 1900	Proportion of people in a country in 1900 who consider themselves Roman Catholic or Muslim. (Source: Enke, 2019)
Herfindahl index top 5 surnames	Herfindahl index of the top 5 (i.e., the 5 most frequent) surnames for a given country. The frequency of surnames per country is measured by the number of articles on Wikipedia per country that feature the surnames. (Source: Wikipedia's Wikidata)
Terror	Indicator variable equal to one if a terrorist attack (with at least 1 or 10 fatalities) occurred within two weeks or one month before the shareholder meeting. Subscript AR>0 indicates that terrorist attacks associated with a negative stock market reaction are excluded, where the abnormal return (AR>0) is calculated as the realized daily return minus the expected return (i.e., the average market return of the preceding 252 trading days). (Source: University of Maryland Global Terror Database)

Appendix B: Alternative measures of shareholder dissent

This table reports results from OLS regressions of the variables *Dissent*, *% Mgmt. "against" votes, Mgmt. proposal rejected*, and *# Shareholder proposals* on *Trust* (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. *Dissent* is an indicator variable, which equals one if the variable *% Mgmt. "for" votes* takes a value in the first quartile of its distribution. *% Mgmt. "against" votes* is the average percentage of votes cast against the management's recommendations at a given shareholder meeting. *Mgmt. proposal rejected* is an indicator variable, which equals one if at least one management proposal received less than 50% of the votes cast at a given shareholder meeting. *# Shareholder proposals* is the number of proposals initiated by shareholders at a given shareholder meeting. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. Results remain significant (except for *# Shareholder proposals*) when we cluster standard errors by country (see Internet Appendix). All specifications include sub-continent, year and industry fixed effects as well as fixed effects for the type of largest investor and legal origins. 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.

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

Appendix C: Blockholder-adjusted votes cast and management for votes

This table reports OLS regression results of *% Mgmt. "for" votes adjusted for blockholder ownership* and *% Votes cast adjusted for blockholder ownership* on *Trust* (which is the trust level of the country where the firm has its headquarters), firm characteristics, ownership characteristics, and country characteristics. Firm, ownership, and country controls (not displayed) are similar to those used in Table 3. *% Mgmt. "for" votes* is the average percentage of votes cast in support of management-initiated proposals minus the percentage of votes held by blockholders at a given shareholder meeting. *% Votes cast* is the average percentage of votes cast irrespective of the concrete voting decision minus the percentage of votes held by blockholders at a given shareholder meeting. *Trust* is the proportion of people agreeing that 'most people can be trusted' against the alternative that 'you can't be too careful in dealing with people'. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. Results remain significant when we cluster standard errors by country (see Internet Appendix). All specifications include year and industry fixed effects as well as fixed effects for the type of largest investor and legal origins. Specifications (3) and (6) additionally include sub-continent 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)
Trust	**-19.594*** (-9.65)**	**-10.530** (-2.15)**	**-21.511*** (-3.06)**	**4.222*** (12.95)**	**4.913*** (5.22)**	**11.918*** (10.19)**
Country controls	No	Yes	Yes	No	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes	Yes
Sub-continent FE	No	No	Yes	No	No	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,266	4,889	4,889	26,713	25,016	25,016
Adjusted R-squared	0.579	0.592	0.604	0.954	0.955	0.956

Appendix D: Controlling for confidence in institutions

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

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

Appendix E: Controlling for additional firm-specific corporate governance variables

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

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

<u>Internet Appendix</u>

for

Trust and Shareholder Voting

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

Table IA.1 - Pairwise correlations:

Our variable of interest, *Trust*, correlates significantly with the variable *Firm age* (0.23), the Djankov et al. (2008) dummies for English (-0.24) and French (0.23) legal origin, and the ASDI index (0.26). The only high pairwise correlation, -0.64, is between *Trust* and the ADRI index. This strongly negative correlation is consistent with Aghion et al. (2010) who find a highly negative correlation between trust in others and government regulation for a cross-section of countries comparable to ours. This negative correlation indicates that the negative relation between trust and shareholder monitoring via voting does not reflect better legal shareholder protection. Additionally, we find very low correlations between *Trust* and the level of hedge fund activism (-0.019), based on hedge fund stock ownership data provided by Becht et al. (2017), as well as average ISS "for" vote recommendations per firm (-0.017). This evidence indicates that the negative relation between trust and shareholder monitoring via voting is unlikely to reflect cross-country differences regarding the engagement by activist shareholders or proxy advisors.

Table IA.2 - Regressions on annual level:

We re-estimate the regressions shown in column (4) of Table 2 and Table 3 separately for each sample year. The results remain statistically significant for each annual regression (independent of whether we use standard errors clustered by firm or by country).

Table IA.3 - Controlling for additional World Governance Indicators (World Bank):

We re-estimate the regressions shown in column (4) of Table 2 and Table 3 adding additional controls for World Bank country-level governance indicators. The governance indicators are *Control of corruption*, *Government effectiveness*, *Political stability*, *Regulatory quality*, and *Voice and accountability*. The results are robust to including these controls (independent of the choice of standard errors).

Table IA.4 - Controlling for Hofstede measures:

We re-estimate the regressions shown in column (4) of Table 2 and Table 3 adding an additional control for Hofstede's power distance index (Hofstede, 2001) to take into account that corporate governance can be

less stringent in more hierarchical countries as suggested by Urban (2019). While power distance and trust tend to have a negative relation, our results could be driven by hierarchical high-trust countries like China. We also control for Hofstede's individualism measure, which tends to be positively related to trust and which might reinforce the free-rider problem of voting leading to a lower percentage of votes cast. The results are robust to including these controls (independent of the choice of standard errors).

Table IA.5 - Controlling for stock market participation:

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

Table IA.6 and Table IA.7 - Results for Europe only and results excluding Scandinavia:

To further mitigate concerns that our cross-country results are driven by specific countries or unobserved country-specific heterogeneity, we limit our sample to European countries, or alternatively exclude Scandinavian countries, and re-estimate the regressions shown in Table 2 and Table 3 of this paper. By focusing on Europe, our tests consider one geographic region with similar laws pertaining to corporations and shareholder voting, comparable economies and economic policies, and a joint history. Hence, we reduce country-specific heterogeneity and exclude various countries that might drive our results. We exclude the Scandinavian countries to rule out that these high-trust countries drive our results. The results remain qualitatively unchanged (independent of the choice of standard errors).

Table IA.8 - Extending the cross-country sample with U.S. data:

When we re-estimate the regressions shown in column (4) of Table 2 and Table 3 of this paper using an extended cross-country sample, which includes data for the USA (i.e., Russell 3000 firms), our results remain qualitatively similar (independent of the choice of standard errors).

Table IA.9 to Table IA.20 - Standard errors clustered at the country level:

We re-estimate all regressions shown in Table 2 to Table 9 and Appendix B to Appendix E of this paper using standard errors clustered at the country (or U.S. county) level. The results are qualitatively similar.

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