



## Trust and monitoring

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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 instrumental variable regressions. It also holds at the U.S.-county level and for voting by U.S. institutional investors. Lower monitoring via voting relates less negatively to future firm performance in high-trust countries, suggesting that managers do not exploit greater discretion when trust is high. We also find a negative relation between trust and bond spreads. Our evidence supports theory arguing that trust substitutes for monitoring and has implications for investors' optimal monitoring effort.

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## 1. Introduction

A growing literature in economics and finance investigates the impact of culture on human and organizational behavior (for reviews, see Guiso et al., 2006; Karolyi, 2016). A significant part of this literature examines how societal trust, i.e., trust in strangers, affects economic outcomes such as economic growth and organizational productivity (e.g., Knack and Keefer, 1997; Bloom et al., 2012). These studies assume that when trust is high principals spend less time on monitoring agents, as predicted by economic theory (e.g., Zak and Knack, 2001; Chami and Fullenkamp, 2002; Sliwka, 2007).<sup>3</sup> In this study, we test the validity of the assumption that societal trust substitutes for costly monitoring. We mainly rely on monitoring via voting, which is an effective governance mechanism across the world (Iliev et al., 2015).

We find that societal trust relates negatively to shareholder voting participation and positively to votes in support of management proposals, across countries as well as across U.S. counties. Our study contributes to the sparse literature on voting participation by shareholders and, more generally, to the emerging literature on the impact of culture on corporate governance. Understanding how societal trust relates to shareholder monitoring and voting can help investors identify those countries and those firms where there is a greater need for monitoring management and where voting is more likely to have an impact given the average voting participation. In turn, the results from this study help managers and boards assess how much support they are likely to receive from their shareholders given their country's and firm's characteristics. The results are 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 societal trust as "a propensity of people in a society to cooperate to produce socially efficient outcomes and to avoid inefficient noncooperative traps". Consequently, the expectation is that societal trust matters for principal-agent relations, where the principals (e.g., the shareholders) rely on opportunistic agents (e.g., firm management) not to exploit uncontracted contingencies. Principals incur the costs of monitoring because of the risk of being expropriated by opportunistic agents in situations where they are not fully protected by law. Societal trust and other forms of social capital discourage such opportunistic

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<sup>3</sup> For example, Knack and Keefer (1997, p.1252) argue that "individuals in higher-trust societies spend less to protect themselves from being exploited in economic transactions".

tic behavior (e.g., Guiso et al., 2011), including CEO rent extraction and other forms of moral hazard in firms (Hoi et al., 2019; Hilary and Huang, 2015). Thus, where societal trust is high, principals should be less concerned about being expropriated and hence lower their level of monitoring.

Indeed, trust is not normally exploited because reciprocity (Berg et al., 1995; Abdulkadiroğlu and Bagwell, 2013), trust responsiveness (Bacharach et al., 2007), and normative expectations (Sugden, 1998) incentivize people to fulfill trust by acting trustworthy. In fact, where trust is the norm, cheating behavior generates psychological and social costs, such as guilt, remorse, and shame, a lack of reciprocation as well as ostracism and more direct forms of punishment by others (e.g., Knack and Keefer, 1997; Fehr and Gaechter, 2000; Francois and Zabojnik, 2005; Battigalli and Dufwenberg, 2007). These costs increase with the level of societal trust that prevails in a country and may sustain trust as an equilibrium phenomenon (e.g., Anderlini and Terlizzese, 2017). Hence, the higher the level of trust in the agent's country, the more trustworthy the agent will act and the more the principal will be able to reduce monitoring. Societal trust may consequently substitute for costly monitoring. This substitution effect is consistent with theories arguing that social norms can substitute for explicit contracts or regulation, which can lead to more order without more law (e.g., Huang and Wu, 1994; Scott, 2003). The substitution effect is also consistent with evidence indicating that trust makes it more likely that individuals share information (e.g., Uzzi, 1996; Hendrikse et al., 2015; Deng et al., 2017), which may lower informational rents and thus the need for monitoring.

This study performs a direct and novel test of whether societal trust reduces the amount of monitoring that agents expend. Specifically, we examine the relation between the level of trust in strangers that prevails in a society and voting as a measure of shareholder monitoring. Voting is the most direct manifestation of shareholders' residual rights and the primary mechanism whereby shareholders voice dissatisfaction and monitor firm management (see, e.g., Grundfest, 1993; Yermack, 2010; McCahery et al., 2016; Edmans and Holderness, 2017). Specifically, their votes enable the 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. Empirical evidence suggests that voting, even in uncontested director elections, is an effective governance mechanism (e.g., Cai et al., 2009; Fischer et al., 2009; Ertimur et al., 2018; Li et al., 2018) and that voting rights are valuable (Kalay et al., 2014). Nevertheless, voting is costly as shareholders incur costs from gathering information and monitoring management (see, e.g., Pound, 1988; Iliev and Lowry, 2015). Consistent with voting being costly, we document an average voting participation of only 59% across countries, and 79% in the U.S.A.

Hence, when deciding whether and how to vote, shareholders have to trade off the costs and benefits of informed voting. *Ceteris paribus*, a higher level of societal trust should reduce costly shareholder participation and dissent voting as it increases managers' costs of opportunistic behavior, which limits shareholders' risk of being expropriated and thus their expected (net) monitoring benefits. We thus formulate our first two hypotheses (H1 and H2).

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

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

Nevertheless, less shareholder voting participation and greater voting support for management proposals may reflect insufficient monitoring, which may harm firm value (e.g., Grossman and Hart, 1980). However, the lower levels of monitoring in high-trust countries are likely to reflect a rational decision by shareholders.

As societal trust is higher and the cost of cheating is higher as well, shareholders can expect managers to be less likely to act against their interests (e.g., Anderlini and Terlizzese, 2017). In turn, this would mitigate the negative consequences of reduced monitoring. Accordingly, we formulate our third hypothesis (H3).

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

Using data from the World Values Survey (WVS) to measure the level of trust in strangers that prevails 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 including 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 societal trust is higher. The results are economically significant as an increase in societal trust by one standard deviation is associated with i) a decrease in voting participation (i.e., votes cast) of at least 6.2 percentage points and ii) an increase in votes in favor of management 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.

If trust does indeed lower shareholders' expected (net) monitoring benefits by mitigating their concerns about being expropriated, the relation between societal trust and shareholder monitoring via voting should vary with corporate ownership. In support of this argument, we find the relation between societal trust and shareholder voting to be more (less) pronounced for firms with a higher free float (stake held by foreign investors), consistent with retail investors having lower net monitoring benefits (Grossman and Hart, 1980; Shleifer and Vishny, 1986) and with foreign shareholders being less aware of the levels of societal trust in other countries. The cross-sectional differences are robust to controlling for country fixed effects.

Importantly, we find a negative relation between low levels of shareholder monitoring via voting and future firm performance and value. However, consistent with H3 and with societal trust being an equilibrium phenomenon, this negative relation is weaker (and partially canceled 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 where societal trust is high, implying that it is rational for shareholders to exert lower voting efforts in high-trust countries.

In addition, we study the relation between societal trust and firms' cost of debt to answer the question of whether managers in high-trust countries act in the interest of shareholders but at the detriment of debtholders. However, we do not find any evidence of a shareholder-debtholder conflict in high-trust countries. Consistent with the U.S. evidence in Hasan et al. (2017), we find that the level of societal trust that prevails in a firm's country is associated with lower at-issue bond spreads, suggesting less opportunistic behavior in debt contracting when trust is high (see also Kanagaretnam et al., 2019). Overall, our evidence is consistent with less need for monitoring in high-trust countries.

While the correlations between societal trust and shareholder voting are informative, we attempt to confirm a causal link between the two using the following five tests. First, our results are confirmed by instrumental variable regressions, which instrumentalize societal 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 undermined the development of trust among people because the vertical bond with the church weakened the horizontal bond with fellow citizens. Our results are upheld when we use the alternative instruments for societal trust suggested by the literature (e.g., Cline and Williamson, 2016). Second, our results are also robust to the inclusion of various additional con-

control variables, such as the levels of trust in the home countries of firms' largest foreign investors, and firm- and country-level governance controls (e.g., ESG ratings and regulatory quality), or the levels of confidence in companies, the government, and the press. Third, we repeat our main analysis for European countries only, i.e., economies with a joint history as well as comparable corporate law and shareholder protection. Our results are upheld. Fourth, we repeat our main analysis for a single country, i.e. the U.S.A. Following [Algan and Cahuc \(2010\)](#), we use an ancestry-based measure of inherited societal trust at the county level in conjunction with state fixed effects, which ensures that voting is comparable across firms and that country and time-invariant state characteristics cannot explain our results. We still find that societal trust reduces shareholder monitoring via voting. Finally, we use the N-PX filing data to examine the voting behavior of U.S. institutional investors in their U.S. and foreign investee firms. This approach allows us to answer the question of whether societal trust helps explain the voting behavior of institutional investors as well as alleviating concerns that differences across investor types may explain our results. Focusing on U.S. investee firms allows us to rule out that cultural differences between firms and investors drive our results. We find that institutional investor votes are more supportive of the management of investee firms headquartered in U.S. countries (countries) with higher levels of inherited trust (country-level societal trust).

This paper contributes to two 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. Improving on these studies, our paper is neither limited to institutional investors nor to shareholder voting in Europe. Our paper adds to the literature by providing evidence that an important aspect of culture, i.e., societal trust, has a significant relation with both shareholder voting participation and dissent with management above and beyond the determinants of voting that existing studies have identified. Given that strong shareholder protection may generate competing agency costs related to insider-outsider relationships ([LaRiviere et al., 2018](#)), it is important to identify country-specific factors other than explicit legal protection that may affect shareholder voting. Furthermore, we provide the first systematic evidence on shareholder voting participation across more than 40 countries, which is only about 60%. This evidence has major implications for governance research and practice (e.g., the definition of de-facto controlling shareholders), which typically assume that voter turnout is close to 100%.

Second, our paper contributes to the growing literature on how culture relates to governance and economic outcomes. A strand of this literature finds that societal trust improves economic performance (e.g., [Algan and Cahuc, 2010](#); [Bloom et al., 2012](#)). The underlying assumption is that trust discourages opportunistic behavior, which allows economic actors to spend more time on productive tasks rather than on monitoring (e.g., [Knack and Keefer, 1997](#); [Zak and Knack, 2001](#)). Studying the association between societal trust and shareholder monitoring via voting, our paper provides the first direct support for this key assumption. The results suggest that it is rational for investors to conduct less costly monitoring if societal trust is high, which supports theory arguing that trust is an equilibrium phenomenon (e.g., [Anderlini and Terlizzese, 2017](#)). Hence, our study also extends the predominantly theoretical literature on the trade-off between control and trust (e.g., [Falk and Kos-](#)

[feld, 2006](#); [Sliwka, 2007](#)) as well as the emerging literature on the impact of culture on corporate governance (e.g., [Licht et al., 2005](#); [Hoi et al., 2019](#); [Urban, 2019](#)).

The paper proceeds as follows. [Section 2](#) presents the data, methodology, and summary statistics. [Section 3](#) contains the empirical analysis while [Section 4](#) performs a battery of robustness tests. [Section 5](#) confirms that our cross-country evidence also holds at the U.S.-county level and for U.S. institutional investors. Conclusions follow.

## 2. Data, methodology, and summary statistics

### 2.1. Data sources and sample selection

We use a cross-country panel of firms that comprises data on shareholder voting as well as firm, ownership, and country characteristics. We obtain voting data from Institutional Shareholder Services (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 on shareholder meetings taking place between 2013 and 2015.<sup>4</sup> We obtain the CUSIP, company name, meeting date, meeting type, agenda item description, ISS proposal category, 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 Refinitiv Eikon, including accounting, ownership, and stock price data.

ISS Voting Analytics covers both 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, 99% of all proposals are management-initiated proposals (see [Table 1](#), Panel C). Overall, our sample consists of 194,548 management-initiated proposals with information on votes exercised in favor of these 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 9087 individual firms from 44 different countries. Data on the percentage of votes cast (% *Votes cast*) is available for 14,085 shareholder meetings held by 4377 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 8373 unique firms from 32 different countries. The sample for the regressions explaining the variable % *Votes cast* is smaller with 13,383 meetings for 4022 firms from 31 different countries.

### 2.2. Key variables and methodology

Our main regression model is as follows:

$$y_{it} = \alpha + \beta_1 \times \text{Trust}_i + \beta_2 \times \text{firm characteristics}_{it} + \beta_3 \times \text{ownership characteristics}_{it} + \beta_4 \times \text{country characteristics}_{it} + \text{fixed effects} + \varepsilon_{it} \quad (1)$$

<sup>4</sup> Societal 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 is neither feasible for international voting data nor does it add much value. Yet, we study several years of data because more observations are associated with more variation in shareholder voting and covariates of societal trust. Our results remain qualitatively similar when we estimate our regressions for each sample year (see Internet Appendix).

**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: capitalization, compensation, directors, and M&A. The panel reports the average percentage of votes in support of each type of proposal as well as its number per country. The sample period comprises shareholder meetings from 2013 to 2015. Avg stands for average. Variables are defined in Appendix A.

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

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

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

	p50		p25		p75		Mean		p-value difference	Std. Dev.		N	
	High	Low	High	Low	High	Low	High	Low		High	Low	High	Low
<b>Firm characteristics:</b>													
3-year avg ROE	0.109	0.069	0.050	0.017	0.169	0.137	0.075	0.040	0.000	0.319	0.343	12,491	15,154
Firm age	16.000	35.000	12.000	17.000	21.000	64.000	18.275	41.547	0.000	13.989	28.875	12,491	15,154
Leverage	0.183	0.170	0.051	0.030	0.295	0.299	0.202	0.201	0.576	0.251	0.216	12,491	15,154
Ln(market cap (\$))	20.796	19.669	19.747	18.583	21.605	21.009	20.559	19.802	0.000	1.505	1.688	12,491	15,154
MTB	1.959	1.240	1.134	0.731	3.467	2.105	3.466	5.776	0.001	14.584	76.921	12,491	15,154
Special meeting	1.000	0.000	0.000	0.000	1.000	0.000	0.509	0.228	0.000	0.500	0.420	12,491	15,154
Stock return	0.162	0.147	-0.089	-0.052	0.550	0.430	0.283	0.240	0.000	0.536	0.490	12,491	15,154

(continued on next page)

**Table 1**  
(continued)

Panel B: Firm-level summary statistics for control variables														
Trust (high: trust >= median)	p50		p25		p75		Mean			p-value difference	Std. Dev.		N	
	High	Low	High	Low	High	Low	High	Low	High		Low	High	Low	
<b>Ownership characteristics:</b>														
% Free float	38.111	42.366	24.976	25.608	57.209	59.567	42.418	44.151	0.000		23.950	24.031	12,491	15,154
% Shares domestic investors	47.827	44.560	14.652	25.661	68.279	61.788	44.081	43.765	0.329		29.606	24.215	12,491	15,154
% Shares foreign investors	1.007	6.165	0.085	1.499	18.177	16.664	13.701	12.406	0.000		22.548	16.355	12,491	15,154
% Shares institutional investors	8.208	9.777	2.473	2.781	17.001	23.317	12.089	16.878	0.000		13.002	19.469	12,491	15,154
% Shares largest investor	30.706	16.921	14.995	8.238	49.560	33.978	33.109	23.765	0.000		21.558	20.435	12,491	15,154
Herfindahl top 10 investors	1,229	522	379	169	2,618	1,478	1,752	1,180	0.000		1,792	1,697	12,491	15,154
Largest investor = bank							0.002	0.068	0.000		0.046	0.252	12,491	15,154
Largest investor = corporation							0.645	0.495	0.000		0.479	0.500	12,491	15,154
Largest investor = family							0.183	0.183	0.944		0.387	0.386	12,491	15,154
Largest investor = government							0.017	0.028	0.000		0.130	0.165	12,491	15,154
Largest investor = management							0.004	0.019	0.000		0.061	0.136	12,491	15,154
Largest investor = inst. investor							0.150	0.208	0.000		0.357	0.406	12,491	15,154
<b>Country characteristics:</b>														
Djankov ADRI	1.000	4.500	1.000	4.000	4.000	4.500	2.266	4.379	0.000		1.696	0.549	12,317	13,521
Djankov ASDI	0.762	0.499	0.762	0.499	0.762	0.579	0.779	0.553	0.000		0.133	0.130	12,317	13,521
Djankov English							0.313	0.385	0.000		0.464	0.487	12,317	13,521
Djankov French							0.652	0.103	0.000		0.477	0.303	12,317	13,521
Djankov German							0.036	0.513	0.000		0.186	0.500	12,317	13,521
GDP per capita	6,108	46,249	5,721	29,413	34,960	46,466	20,088	35,825	0.000		20,997	18,274	12,317	13,521
Market cap/GDP	57.286	88.119	43.191	61.336	88.292	90.292	258.301	90.267	0.000		412.042	43.406	12,317	13,521
Rule of law	-0.334	1.420	-0.451	0.754	1.567	1.599	0.368	1.138	0.000		1.040	0.696	12,317	13,521

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

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

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 average percentage of votes cast in favor of management-initiated proposals at a shareholder meeting. Additionally, we classify management proposals by their type, i.e., proposals related to capitalization, compensation, directors, and M&A, as per [Iliev et al. \(2015\)](#). Distinguishing between the different types of management proposals enables us to assess whether across these types there are differences in the average percentages of votes cast in favor. 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 (i.e., 95.85%) of its sample distribution, and zero otherwise. The latter equals one if the variable % *Mgmt. "for" votes* is below 50%, and zero otherwise. We also use the variables % *Mgmt. "against" votes* (analogous to "for" votes) and # *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 of societal trust from WVS.<sup>5</sup> It is the proportion of survey respondents for each country agreeing that "most people can be trusted", against the alternative that "you can't be too careful in dealing with people". This measure captures general trust, i.e., "the trust that people have toward a random member of an identifiable group" (see [Guiso et al., 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 (see, e.g., [Knack and Keefer, 1997](#); [Guiso et al., 2011](#); [Johnson and Mislin, 2012](#); [Sapienza et al., 2013](#)).

The regressions include three sets of control variables for firm, ownership, and country characteristics. Firm characteristics are 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. These 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 the different types of largest investor (i.e., a bank, a corporation, a family, the government, the management, and an institutional shareholder). We use these firm and ownership controls as countries with different levels of societal trust may have differences in firm and ownership characteristics that affect shareholder voting. We note that ownership information in commonly used databases may not accurately measure corporate control ([Aminadav and Papaioannou, 2020](#)). The country controls include the [Djankov et al. \(2008\)](#) 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). We also use the [Djankov et al. \(2008\)](#) categorization of legal families to classify the countries where the sample firms have their headquarters by their (English, French, or German) legal origin. We addi-

tionally use GDP per capita, market capitalization as a percentage of the country's GDP, and the rule of law index. We include these country-level controls as both the level of societal trust and shareholder voting behavior in a country may be affected by the quality of a country's institutions and its general economic situation. All variables are defined in Appendix A.

Finally, given that the variable *Trust* is time-invariant over our sample period, we mainly use regressions with industry- and year-fixed effects (following [Iliev et al., 2015](#)) to estimate the relation between societal trust and shareholder voting behavior. To account for regional economic factors and cultural covariates of societal trust that have developed over time and might impact shareholder voting, we additionally control for sub-continent-fixed effects. Given the countries in our sample, we use the following twelve sub-continent: Europe, North Africa, Sub-Saharan Africa, East Asia, West and Central Asia, North Asia, South and South-East Asia, Oceania, North America, South America, Mesoamerica, and the Caribbean Islands. When we use more granular as well as less granular regional clusters in untabulated regressions, our results remain qualitatively similar. Yet, whenever we use interaction terms of societal trust and other variables, we also conduct regressions with country-fixed effects. We conduct several identification tests, which we discuss in [Sections 3 and 4](#). Following [Iliev et al. \(2015\)](#), we estimate all regressions at the firm level and we use standard errors clustered at the firm level in all regressions.<sup>6</sup>

### 2.3. Summary statistics

[Table 1](#) shows summary statistics for societal 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). For the sake of brevity, we only discuss our main variables of interest. Panel A shows that societal trust, which has a cross-country mean of 45%, 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 for Europe in [Van der Elst \(2011\)](#). Finally, the average percentage of votes in support of management, which has a sample mean of 96%, ranges from a low of 83.8% (Bulgaria) to 100% (e.g., Morocco, Qatar). The figure we obtain for the average percentage of votes in support of management is comparable to [Iliev et al. \(2015\)](#) and other studies (e.g., [Cai et al., 2009](#)).

We find that the pairwise correlations between *Trust* and the control variables, which are reported in the Internet Appendix, are generally moderate. The only strong correlation (-0.64) is between *Trust* and the ADRI index, which is consistent with [Aghion et al. \(2010\)](#) who find a strong, negative correlation between societal trust and government regulation for a cross-section of countries comparable to ours. Importantly, this negative correlation makes it unlikely that a negative relation between societal trust and shareholder monitoring via voting reflects better legal shareholder protection or other aspects of regulation relevant to shareholders.

<sup>5</sup> The WVS measure of trust is the most frequently used measure of societal 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](#); [Ahern, Daminelli, and Fracassi, 2015](#); and [Ahern, 2018](#)).

<sup>6</sup> When we re-estimate the regressions using standard errors clustered at the country level (see the Internet Appendix), we find qualitatively similar results. Furthermore, when we estimate regressions where the dependent variable is % *Mgmt. "for" votes* at the proposal level rather than the meeting level, the results are qualitatively similar.

### 3. Cross-country evidence: societal trust and shareholder voting

#### 3.1. Country-level evidence

As a first step, we conduct a simple test of the validity of H1 and H2 by considering the country-level relation between societal trust and the country averages for the two measures of shareholder voting. Fig. 1 depicts the relation between societal trust and shareholder voting across all countries with available data. Specifically, Fig. 1a plots the average % *Votes cast* per country against *Trust*. The figure suggests a negative relation between the two variables, with fewer votes cast at shareholder meetings in high-trust countries. Fig. 1b plots the average % *Mgmt. "for" votes* per country against *Trust*. The relation between the two is positive with the percentage of votes in support of management increasing with country trust. Country-level regressions, shown in the Internet Appendix, provide further empirical support for H1 and H2.

#### 3.2. Firm-level regression results and differences across corporate ownership

As a second step, we estimate firm-level regressions of the voting measures on our variable of interest, *Trust*, along with the extensive sets of control variables (as described in Section 2.2). Panel A of Table 2 shows the main results for the regressions explaining the variable % *Votes cast* when controlling for country, firm, and ownership characteristics as well as industry-, year-, and subcontinent-fixed effects. Column (1) shows the baseline regression estimate for *Trust*. Appendix B presents the detailed results for this regression as well as for alternative regression specifications. In particular, it shows the results from re-estimating the baseline regression while additionally including the variable *Avg trust foreign investors*, which we define as the ownership-weighted average level of societal trust that prevails in the countries where the firm's largest foreign investors are headquartered. We thereby address the concern that shareholder voting may be primarily determined by the levels of trust that prevail in investors' home countries. However, we find no such evidence. In all regressions, the coefficient on *Trust* is negative and significant at the 1% level (with  $p$ -values < 0.000), providing support for H1 that the percentage of votes cast is lower in high-trust countries. In terms of 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.

Columns (2) to (5) in Panel A of Table 2 present results on the cross-sectional predictions regarding corporate ownership. We expect the relation between societal trust and shareholder monitoring via voting to be more pronounced for firms with a greater share of small (i.e., retail) shareholders who are less able to afford the costs of monitoring (see Grossman and Hart, 1980; Shleifer and Vishny, 1986). Consequently, if societal trust reduces the expected monitoring benefits, the costs of monitoring will more likely exceed the benefits from monitoring for small shareholders, inducing them not to vote. We also expect the relation between trust and shareholder voting to be less pronounced for foreign shareholders as such shareholders are less likely to be aware of the levels of societal trust in foreign countries and as they tend to be institutional investors. We re-estimate the regression shown in column (1) of Table 2, 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*. To account for any time-invariant heterogeneity across countries, the regres-

sions reported in columns (3) and (5) include country (instead of subcontinent) 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 provide empirical support for our predictions: the relation between % *Votes cast* and *Trust* is significantly more (less) pronounced for firms with a higher free float (stake held by foreign investors).

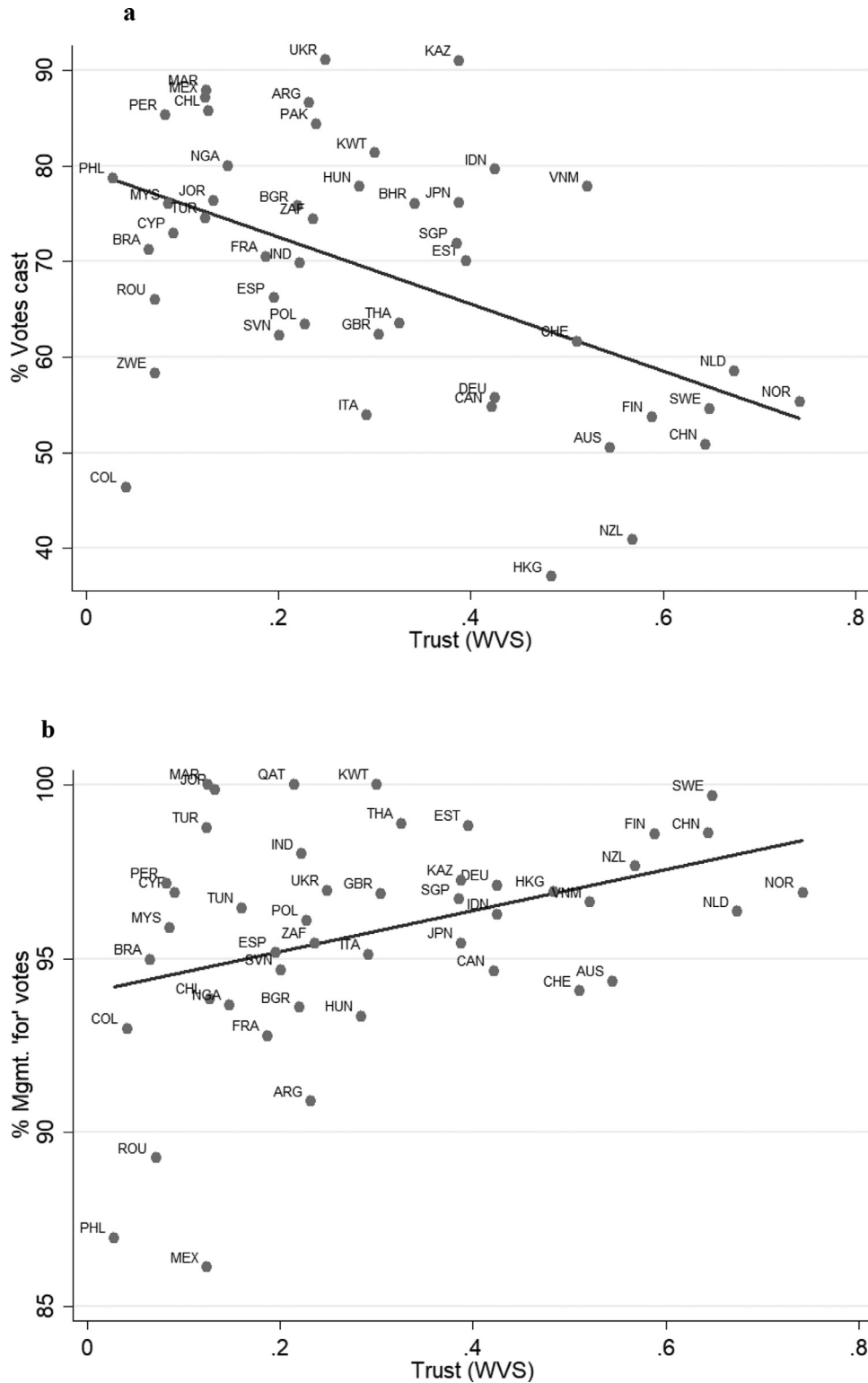
Panel B of Table 2 and Appendix B show the results of regressions equivalent to those discussed above but explaining the dependent variable % *Mgmt. "for" votes*. As per H2, in column (1) of Table 2, Panel B, and throughout all columns in Appendix B, the coefficient on *Trust* is positive and significant at the 1% level (with  $p$ -values < 0.000), consistent with greater shareholder support for management in high-trust countries. 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% of a standard deviation. This result is supported by Panel A of Appendix C, which shows the results of regressions similar to those in column (1) of Table 2, but with the different alternative measures of shareholder dissent as the dependent variable. More specifically, we find the coefficient on *Trust* to be significantly negative when we use % *Mgmt. "against" votes*, the indicator variables *Dissent* and *Mgmt. proposal rejected*, and the count variable # *Shareholder proposals* as the dependent variable.<sup>7</sup> Thus, societal trust is associated with significantly lower shareholder dissent. An increase in *Trust* by one standard deviation relates to a decrease in the likelihood of at least one management proposal being rejected (*Mgmt. proposal rejected*) of 5%.

We also re-estimate the regression shown in column (1) of Panel B of Table 2 separately for each of the four main types of management-initiated proposals. The results, shown in Panel B of Appendix C, suggest that societal trust matters for capitalization-related (column (1)), compensation-related (column (2)), and director-related proposals (column (3)). For the three types of proposals, the coefficient on *Trust* is significant at the 1% level (with  $p$ -values < 0.000). In contrast, we do not find any evidence that trust matters for M&A-related proposals (column (4)). These proposals tend to be easier to assess for (small) shareholders due to the high press coverage of M&As, which makes trust a less likely 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.

Lastly, columns (2) to (5) of Panel B of Table 2 show the results for our cross-sectional predictions regarding corporate ownership when the dependent variable is % *Mgmt. "for" votes*. Consistent with our predictions, and again accounting for country fixed effects, we find that the percentage of votes in favor of management-initiated proposals is significantly higher (lower) if a firm's free float (foreign ownership) is above the sample median, as indicated by the significant positive (negative) coefficient on *High free float\*Trust* (*High foreign ownership\*Trust*).

We find qualitatively similar results for both the variable *Trust* and the interaction terms of this variable with the two measures of corporate ownership when we use pre-voting values of societal trust, i.e., data on societal trust from WVS wave five or the average level of societal trust based on WVS trust data from waves two to five (see Internet Appendix).

<sup>7</sup> We use a linear probability model if the dependent variable is either *Dissent* or *Mgmt. proposal rejected*. Our results are upheld when instead we use Logit or Probit regressions. Our results are also upheld if we estimate Tobit instead of OLS regressions to explain % *Mgmt. "for" votes*. These results are reported in the Internet Appendix.



**Fig. 1.** Societal trust and shareholder voting behavior per country. This figure illustrates the relation between societal trust and shareholders' voting behavior. Fig. 1a depicts the relation between average % Votes cast and Trust per country. Fig. 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 societal trust per country

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

**Table 2**  
Societal trust, shareholder voting, and differences across corporate ownership.

Panel A: % Votes cast					
	% Votes cast				
	(1)	(2)	(3)	(4)	(5)
<b>Trust</b>	<b>-41.747***</b> (-6.15)	<b>-38.364***</b> (-5.72)		<b>-55.972***</b> (-7.77)	
High free float		-2.736* (-1.85)	-3.615** (-2.49)		
<b>Trust * High free float</b>		<b>-6.538**</b> (-2.56)	<b>-5.057**</b> (-2.01)		
High foreign ownership				-7.987*** (-6.31)	-7.272*** (-5.78)
<b>Trust * High foreign ownership</b>				<b>25.400***</b> (8.50)	<b>23.728***</b> (7.91)
Country controls	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes
Country FE	No	No	Yes	No	Yes
Djankov legal origin FE	Yes	Yes	No	Yes	No
Industry FE	Yes	Yes	Yes	Yes	Yes
Largest investor FE	Yes	Yes	Yes	Yes	Yes
Subcontinent FE	Yes	Yes	No	Yes	No
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	13,383	13,383	13,380	13,383	13,380
Adj. R-squared	0.455	0.462	0.471	0.465	0.473
Panel B: % Mgmt. "for" votes					
	% Mgmt. "for" votes				
	(1)	(2)	(3)	(4)	(5)
<b>Trust</b>	<b>12.809***</b> (9.02)	12.068*** (8.32)		14.296*** (9.46)	
High free float		-0.829** (-2.35)	-0.758** (-2.16)		
<b>Trust * High free float</b>		<b>1.573**</b> (2.14)	<b>1.436*</b> (1.95)		
High foreign ownership				0.686* (1.86)	0.665* (1.86)
<b>Trust * High foreign ownership</b>				<b>-2.898***</b> (-3.52)	<b>-2.878***</b> (-3.57)
Country controls	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes	Yes
Country FE	No	No	Yes	No	Yes
Djankov legal origin FE	Yes	Yes	No	Yes	No
Industry FE	Yes	Yes	Yes	Yes	Yes
Largest investor FE	Yes	Yes	Yes	Yes	Yes
Subcontinent FE	Yes	Yes	No	Yes	No
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	25,838	25,838	25,837	25,838	25,837
Adj. R-squared	0.091	0.091	0.093	0.092	0.095

This table reports the results from OLS regressions of % Votes cast (Panel A) and % Mgmt. "for" votes (Panel B) 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 Appendix B columns (2) and (5). % 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 remain statistically 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 in columns (3) and (5) also include country fixed effects. Columns (1), (2), and (4) include legal origin and subcontinent fixed effects. Legal origins are: English, French, and German. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% level, respectively.

To better understand the relevance of societal trust for shareholder monitoring via voting, we compare the Akaike and Bayesian information criteria (AIC and BIC) for regression models with the two measures of legal investor protection, *ADRI* and *ASDI*, with estimators for the restricted models. We do likewise for the models including the variable *Trust*. Both the AIC and BIC suggest that societal trust has greater explanatory power for shareholder voting

than legal protection, which points to the important role of implicit regulation via social norms such as trust.<sup>8</sup>

<sup>8</sup> For the sake of brevity, we do not elaborate on the regression results for the control variables. However, they are generally consistent with economic intuition. For example, we find that % Votes cast is positively (negatively) associated with the concentration of shares held by a firm's ten largest investors as well as with firm

### 3.3. Trust, firm performance, and cost of debt: implications for optimal monitoring

In the following, we study the association of the trust-shareholder voting relation with measures of firm performance and cost of debt. 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 societal 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.

Panel A of Table 3 reports results from regressions that explain firms' stock returns, and alternatively Tobin's Q, in year  $t + 1$ . The explanatory variables are *Trust*; an indicator variable that equals one if % *Votes cast* (% *Mgmt. "for" votes*) is below (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*). Columns (1) to (4) focus on the *Low votes cast* indicator variable whereas columns (5) to (8) focus on the *High mgmt. "for" votes* indicator variable. As in Section 3.2, a benefit from this analysis is that the aforementioned interaction terms 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.

Confirming extant literature (e.g. La Porta et al., 1997; Zak and Knack, 2001; and Bloom et al., 2012) on the positive effect of trust on organizational performance, we find that trust has a significantly positive relation with firms' future stock returns and value. As expected, a low percentage of votes cast and a high percentage of votes in support of management show a significantly negative relation with the 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 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). We also find qualitatively similar results for the above interaction terms when we use data on societal trust from WVS wave five or the average level of societal trust based on WVS trust data from waves two to five (see Internet Appendix).<sup>9</sup>

size (free float and stock returns). % *Mgmt. "for" votes* is positively related to stock returns and the *ADRI* and *ASDI* variables, in line with Iliev et al. (2015), and negatively related to the percentage of shares held by foreign and institutional investors.

<sup>9</sup> As a robustness test (not tabulated), we regress % *Votes cast* on *Trust*. We then use the residuals from this regression instead of % *Votes cast* in the regressions. We do likewise for % *Mgmt. "for" votes*. We find qualitatively similar results to those reported in Table 3. This finding suggests that the results in Table 3 are not driven by a correlation between *Trust* and the two indicator variables for low monitoring intensity.

The results in Panel A of Table 3 indicate that the potentially negative effects of low monitoring are mitigated or even canceled out in high-trust countries. Specifically, the negative coefficient on *Low votes cast* is exactly canceled out by the positive coefficient on *Trust\*Low votes cast* for values of *Trust* equal to 0.51 (*Stock return<sub>t+1</sub>*) and 0.46 (*Tobin's Q<sub>t+1</sub>*). The negative impact of *High mgmt. "for" votes* is canceled out for values of *Trust* of 0.31 (*Stock return<sub>t+1</sub>*) and 0.13 (*Tobin's Q<sub>t+1</sub>*). These numbers are based on the estimations without country fixed effects and relate to 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 theory according to which less control, which signals trust, may be beneficial (Falk and Kosfeld, 2006; Sliwka, 2007) due to the positive effects of managerial discretion (e.g., Adams et al., 2005). We conclude that the optimal level of shareholder monitoring depends on the level of trust in others (including trust in firm management) that prevails in a country, which indicates that it may be rational for shareholders to reduce their voting efforts in high-trust countries.

The above evidence raises the question of whether managers in high-trust countries act in the interest of shareholders at the detriment of debtholders (i.e., the shareholder-debtholder conflict), or whether managers in high-trust countries generally are more trustworthy, thereby mitigating both the shareholder-management conflict and the shareholder-debtholder conflict. To address this question, we analyze an international sample of corporate bonds issued during our sample period, which we retrieve from the SDC database. We regress the dependent variable *Spread*, i.e., at-issue bond spreads, on the variable *Trust* along with firm characteristics and issue characteristics (i.e., the credit ratings, gross proceeds, leverage, maturity, ROA, and firm size). Panel B of Table 3 shows the regression results. We do not find any evidence of a shareholder-debtholder conflict in high-trust countries. In particular, the results suggest that societal trust is associated with significantly lower at-issue bond spreads. This evidence corroborates the results by Hasan et al. (2017) who find that firms headquartered in U.S. counties with higher levels of social capital incur lower bank loan and at-issue bond spreads, indicating less opportunistic behavior in debt contracting when trust is high. Overall, the evidence in this section is consistent with the notion that in high-trust countries agency costs of both debt and equity tend to be lower, which reduces the need for monitoring.

## 4. Cross-country robustness tests

In this section, we conduct a number of empirical tests to confirm the robustness of our cross-country results and to attempt to establish a causal link between societal trust and shareholder voting. When we re-estimate the regressions from our main analyses shown in Section 3 and the following robustness tests using standard errors clustered at the country level instead of the firm level, our results remain qualitatively unchanged as shown in the Internet Appendix to this paper.

### 4.1. Instrumental variable regressions

We adopt several 2SLS instrumental variables (IV) approaches following extant literature. 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 that followed a hierarchical religion, i.e., Roman Catholicism or Islam, in

**Table 3**  
The association of societal trust and shareholder voting with future firm performance and cost of debt.

Panel A: Societal trust, shareholder voting, and future firm performance								
Dep. variables:	% Votes cast				% Mgmt. "for" votes			
	Stock return <sub>t+1</sub>		Tobin's Q <sub>t+1</sub>		Stock return <sub>t+1</sub>		Tobin's Q <sub>t+1</sub>	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Trust	0.445*** (4.09)		1.131*** (4.10)		0.357*** (4.46)		0.643*** (3.60)	
Low votes cast	-0.115*** (-3.05)	-0.118*** (-3.20)	-0.353*** (-4.43)	-0.386*** (-4.85)				
<b>Trust * Low votes cast</b>	<b>0.226*** (3.16)</b>	<b>0.211*** (2.98)</b>	<b>0.862*** (5.10)</b>	<b>0.864*** (5.07)</b>				
High mgmt. "for" votes					-0.105*** (-4.39)	-0.083*** (-3.39)	-0.125** (-2.38)	-0.187*** (-3.41)
<b>Trust * High mgmt. "for" votes</b>					<b>0.338*** (6.56)</b>	<b>0.296*** (5.65)</b>	<b>0.775*** (6.76)</b>	<b>0.881*** (7.43)</b>
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
Country FE	No	Yes	No	Yes	No	Yes	No	Yes
Djankov legal origin FE	Yes	No	Yes	No	Yes	No	Yes	No
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year 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

Panel B: Trust and at-issue bond spreads					
	Spread				
	(1)	(2)	(3)	(4)	(5)
<b>Trust</b>	<b>-1.646*** (-5.84)</b>	<b>-1.942*** (-5.75)</b>	<b>-1.660*** (-6.09)</b>	<b>-1.533*** (-5.73)</b>	<b>-1.379*** (-5.38)</b>
Leverage			-0.315** (-2.37)	-0.294** (-2.21)	-0.300** (-2.31)
Log total assets			-0.118*** (-6.81)	-0.171*** (-8.18)	-0.146*** (-8.10)
ROA			-0.032 (-0.93)	-0.044 (-1.34)	-0.025 (-0.97)
Log gross proceeds				0.234*** (7.43)	0.160*** (6.09)
Log maturity				0.145*** (4.62)	0.156*** (5.28)
Callable					-0.096* (-1.67)
USD denominated					0.250*** (4.18)
Guaranteed					0.160* (1.82)
High yield					2.112*** (7.47)
Industry FE	No	Yes	Yes	Yes	Yes
Rating FE	No	No	Yes	Yes	Yes
Year FE	No	Yes	Yes	Yes	Yes
Observations	8,119	5,151	3,415	3,403	3,403
Adjusted R-squared	0.012	0.227	0.680	0.705	0.747

Panel A of 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)) and 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 in Panel A include firm, ownership, and country characteristics as control variables. These controls (not displayed) are similar to those used in Appendix B columns (2) and (5). 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. Panel B shows the results from OLS regressions of *Spread* (i.e., firms' at-issue bond spreads) on *Trust*, firm, and issue characteristics. *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 in Panel A 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 in Panel A with even (odd) numbers also include country fixed effects (legal origin fixed effects). Legal origins are: English, French, and German. Specifications (2) to (6) of Panel B include different sets of fixed effects, i.e., Moody's issue ratings, industry, and year. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% level, respectively.

the year 1900. Data on religious denominations in 1900 is provided by [Enke \(2019\)](#). We denote the instrument % *Hierarchical religion in 1900*. We use this instrument because hierarchical religions, as argued by [Putnam \(1993\)](#) and [La Porta et al. \(1997\)](#), discouraged the formation of societal trust as the vertical bond with the church undermined the horizontal bond with fellow citizens. Thus, in countries shaped by hierarchical religions, people spend more time with the church and less time with other people (especially those of other religious denominations), which hampers the development of trust across society. Thus, we expect the variable % *Hierarchical religion in 1900* to have a negative relation with *Trust*.

Panel A of [Table 4](#) reports the results from the above IV approach. As expected and confirming the results from extant literature, columns (1) and (3) show that the coefficient on % *Hierarchical religion in 1900* is negative and statistically significant at the 1% level in the first-stage regressions (supporting the validity of the relevance condition). 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 and also has the expected sign. Hence, societal 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. The Kleibergen-Paap F-statistic (which exceeds the critical value suggested by [Lee et al., 2020](#)) as well as 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 societal trust, *Trust (IV)*, is comparable to that for *Trust* in the baseline regressions from [Section 2.2](#).<sup>10</sup>

In terms of the exclusion restriction, the literature (e.g., [Guiso et al., 2006](#); [Pevzner et al., 2015](#)) argues that religion can be considered exogenous to societal trust as it is more elemental than culture. Importantly, in the context of our study, we expect hierarchical religions that prevailed in a country in 1900 not to have a direct effect on shareholder voting behavior at the firm level more than a century later. In support of this argument, [Smets and van Ham \(2013\)](#) conclude from their meta-analysis that having a religious denomination does not significantly affect voter turnout in elections. Therefore, we argue that our instrument based on the share of hierarchical religions as of 1900 appears to be a valid one. Nevertheless, as the validity of the exclusion restriction cannot be tested, we provide additional evidence using several alternative instruments for robustness purposes.

We present the results based on the alternative instruments in Panels B and C of [Table 4](#). First, we use the concentration of the five most frequent surnames in a country, denoted *Herfindahl index top 5 surnames* as an alternative instrument. A lack of surname concentration suggests societal fragmentation, particularly in terms of ethnicity, race, and religion, which has been shown to undermine societal trust (see, e.g., [Alesina and La Ferrara, 2002](#); [Guiso et al., 2011](#)). Accordingly, we expect a positive relation between this instrument and the variable *Trust* as less societal fragmentation in a country is expected to foster societal trust. Indeed, we find a significantly positive relation between *Herfindahl index top 5 surnames* and *Trust* in the first-stage regressions (see column (1) of Panels B and C). Supporting our previous results, we find a significantly negative relation between instrumented soci-

etal trust, i.e., *Trust (IV)*, and shareholder monitoring via voting in the second-stage regressions (see column (2)). Second, we use the variables *Genetic distance* (see columns (3) and (4)), *Pronoun drop* (see columns (5) and (6)), and *Rainfall variation* (see columns (7) and (8)) proposed by [Cline and Williamson \(2016\)](#), among others, to instrumentalize societal trust. We use the same data and variable definitions as [Cline and Williamson \(2016\)](#). The coefficients on all three instruments are statistically significant in the first-stage regressions and for all three instruments the coefficient on *Trust (IV)* is significant and has the expected sign. The IV regression diagnostics also support the quality of the IV regressions.

#### 4.2. Additional robustness tests

In the following, we discuss several additional robustness tests, which we tabulate in the Internet Appendix to this paper. First, we re-estimate the baseline regressions shown in [Appendix B](#) 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). We find that the coefficient on *Trust* remains significant at the 5% level or better and also has the expected sign.

Second, 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 regression in column (1) of [Table 2](#) by including measures of the confidence that respondents to the WVS put in (1) companies, (2) the government, and (3) the press. Confidence in companies captures the average reputation of firms in the country, which might reduce the need for monitoring by shareholders. Confidence in the government captures the quality of the 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 et al., 2008](#); [McConnell and Liu, 2013](#)). WVS 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 the 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. 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 included in the regressions, both the confidence in companies and the confidence in the government are statistically significant in the regression explaining % *Votes cast*, whereas only the confidence in companies is significant when explaining % *Mgmt. "for" votes*. Finally, the effect of societal trust is also upheld when we use the variable *Residual trust* to explain votes cast and votes in support of management, where *Residual trust* is the residual from the regression of *Trust* on the three measures for confidence in companies, the government, and the press.<sup>11</sup>

<sup>10</sup> In regressions reported in the Internet Appendix, we include in both the first- and second-stage regressions additional country level controls, which capture civic engagement, education, income inequality, political stability, and voice and accountability, and find qualitatively similar results. We also find similar results using current levels of religious denominations as used in the extant literature. Current data on religious denominations is retrieved from WVS (question: "Do you belong to a religion or religious denomination? If yes, which one?").

<sup>11</sup> In additional, untabulated robustness tests, we re-estimate the regression shown in column (1) of [Table 2](#) 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 on public transport, and 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

**Table 4**  
Instrumental variable (IV) regressions.

Panel A: % Hierarchical religion in 1900								
Dep. variables:	1 <sup>st</sup> stage Trust (1)	2 <sup>nd</sup> stage % Votes cast (2)	1 <sup>st</sup> stage Trust (3)	2 <sup>nd</sup> stage % Mgmt. "for" votes (4)				
<b>% Hierarchical religion in 1900</b>	<b>-0.563***</b> <b>(-22.33)</b>		<b>-0.523***</b> <b>(-35.14)</b>					
<b>Trust (IV)</b>		<b>-65.516***</b> <b>(-7.66)</b>		<b>14.992***</b> <b>(6.40)</b>				
3-year avg ROE	-0.000 (-0.41)	3.254*** (3.96)	-0.000 (-0.39)	0.042 (0.26)				
Firm age	0.000*** (2.80)	0.030** (2.15)	-0.000 (-1.33)	0.004 (1.48)				
Leverage	-0.001 (-0.69)	-0.773 (-0.63)	0.001 (1.64)	-0.587 (-1.16)				
Ln(market cap)	0.000 (0.51)	2.286*** (10.47)	0.000 (0.09)	-0.017 (-0.44)				
MTB	0.000 (0.84)	0.000 (0.11)	-0.000 (-0.90)	-0.000 (-0.12)				
Special meeting	-0.002*** (-4.82)	-2.957*** (-9.82)	-0.001** (-2.03)	-0.731*** (-6.13)				
Stock return	0.001*** (3.02)	-0.507 (-1.42)	0.000 (1.11)	0.324*** (3.72)				
% Free float	0.000 (0.59)	-0.269*** (-13.10)	0.000 (1.24)	-0.021*** (-5.12)				
% Shares foreign investors	0.000*** (2.61)	0.118*** (7.97)	0.000*** (2.92)	-0.019*** (-4.98)				
% Shares institutional investors	-0.000** (-2.31)	-0.296*** (-12.11)	0.000*** (3.29)	-0.029*** (-4.69)				
% Shares largest investor	-0.000 (-0.03)	0.040 (0.97)	0.000 (1.16)	0.006 (0.79)				
Herfindahl index top 10 investors	-0.000 (-0.10)	0.001** (2.57)	-0.000 (-0.30)	0.000 (1.20)				
Djankov ADRI	-0.061*** (-9.00)	-6.691*** (-5.18)	-0.067*** (-12.54)	1.372*** (3.19)				
Djankov ASDI	0.025 (0.86)	-10.321 (-1.35)	0.042** (2.27)	3.867*** (2.95)				
GDP per capita	0.003*** (6.81)	0.398*** (4.49)	0.003*** (14.27)	-0.111*** (-4.13)				
Market cap/GDP	-0.000 (-0.63)	-0.037*** (-3.09)	0.000** (2.26)	0.000 (0.03)				
Rule of law	-0.036*** (-6.94)	6.788*** (4.18)	-0.009 (-1.53)	-0.018 (-0.04)				
Djankov legal origin FE	Yes	Yes	Yes	Yes				
Industry FE	Yes	Yes	Yes	Yes				
Largest investor type FE	Yes	Yes	Yes	Yes				
Subcontinent 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	12,689	23,490	23,490				
R-squared		0.477		0.100				
Panel B: Alternative instruments – % Votes cast								
Stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage
Dep. variables:	Trust	% Votes cast	Trust	% Votes cast	Trust	% Votes cast	Trust	% Votes cast
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Herfindahl index top 5 surnames</b>	<b>20.115***</b> <b>(43.54)</b>							
<b>Genetic distance</b>			<b>-2.136***</b> <b>(-3.94)</b>					
<b>Pronoun drop</b>					<b>0.207***</b> <b>(7.44)</b>			
<b>Rainfall variation</b>							<b>0.135***</b> <b>(8.90)</b>	
<b>Trust (IV)</b>		<b>-32.499***</b> <b>(-3.53)</b>		<b>-177.715***</b> <b>(-4.76)</b>		<b>-54.502***</b> <b>(-3.69)</b>		<b>-110.745***</b> <b>(-5.15)</b>
Controls and FE as in Panel A	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Kleibergen-Paap F-statistic	1,895.54		677.27		3,698.40		1,099.25	
Observations	9,380	9,380	12,677	12,677	12,968	12,968	12,689	12,689
R-squared		0.482		0.427		0.453		0.466

(continued on next page)

**Table 4**  
(continued)

Panel C: Alternative instruments – % Mgmt. for Votes								
Stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage	1 <sup>st</sup> stage	2 <sup>nd</sup> stage
Dep. variables:	Trust	% Mgmt for votes	Trust	% Mgmt for votes	Trust	% Mgmt for votes	Trust	% Mgmt for votes
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Herfindahl index top 5 surnames</b>	<b>20.220***</b>							
	<b>(66.81)</b>							
<b>Genetic Distance</b>			<b>-2.623***</b>					
			<b>(-7.15)</b>					
<b>Pronoun drop</b>					<b>0.097***</b>			
					<b>(8.90)</b>			
<b>Rainfall variation</b>							<b>0.146***</b>	
							<b>(10.23)</b>	
<b>Trust (IV)</b>		<b>11.739***</b>		<b>25.767***</b>		<b>31.315***</b>		<b>27.435***</b>
		<b>(5.23)</b>		<b>(2.88)</b>		<b>(3.55)</b>		<b>(4.13)</b>
Controls and FE as in Panel A	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Kleibergen-Paap F-statistic	4,464.21		2,689.93		1,142.44		2,599.45	
Observations	20,111	20,111	23,122	23,122	18,145	18,145	23,490	23,490
R-squared		0.103		0.097		0.077		0.094

This table reports the coefficients from instrumental variable regressions. Specifications with odd numbers 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). % *Hierarchical religion in 1900* is the percentage of people in a country in the year 1900 who belonged to the religious groups of Roman Catholics or Muslims. Specifications with even numbers report the second-stage results, with *Trust* being instrumented by % *Hierarchical religion in 1900* (Panel A) or, alternatively, by *Herfindahl index top 5 surnames*, *Genetic distance*, *Pronoun drop*, or *Rainfall variation* (Panel B and C) 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 subcontinent, 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.

Third, 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 use the ESG ratings (from Refinitiv Eikon) and the ISS voting recommendations (from ISS Voting Analytics) to control for the firm's overall governance quality. In addition, we use two controls based on CEO compensation to address the specific concern that societal trust relates to shareholder voting as it affects CEO rent extraction (see Hoi et al., 2019). The latter two controls are total CEO compensation and the ratio of the CEO's cash to total compensation (which we retrieve from Capital IQ). Unfortunately, data on CEO compensation and, particularly, on the ESG ratings is only available for a limited number of companies and countries. We re-estimate the regression in column (1) of Table 2 including these additional controls. 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. In line with the literature (e.g., Cai et al., 2009), the ISS recommendations relate significantly and positively to the votes in support of management, while the other additional controls do not explain shareholder voting in general.

A related concern is that societal trust may correlate with country-level governance factors or cultural aspects that impact corporate governance. To address this concern, we re-estimate the regression in column (1) of Table 2 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 individualism measure

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.

because individualism might exacerbate the free-rider problem of voting, leading to a lower percentage of votes cast. The coefficient on *Trust* remains significant at the 1% level when we include the above controls. Our results are also robust to controlling for differences in stock market participation across countries (using data from Giannetti and Koskinen, 2010). This test addresses the concern that societal trust relates to shareholder voting as it increases stock market participation (see Guiso et al., 2008) and hence the fraction of retail investors who tend to monitor less.

Fourth, we find no indication that our results are driven by a few specific countries. Specifically, our results are upheld if we exclude the Scandinavian countries, which have very high levels of societal trust, or if we exclude the countries in our sample with less than 30 observations each. Our results are also upheld if we exclude China, India, and Japan, which account for more than half of the observations in our sample.

## 5. U.S. evidence: county-level inherited societal 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, we repeat our main analysis for a single country, the U.S.A.<sup>12</sup> 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 societal trust that prevails in the U.S. county where the firm is headquartered. To control for differences in shareholder voting (and other unobserved heterogeneity) across U.S. states, we include U.S. state fixed effects.

<sup>12</sup> To reduce country-specific heterogeneity, we also re-estimate the regressions in Appendix B only for the European countries in our sample. We find qualitatively similar results, which we report in the Internet Appendix.

As most U.S. inhabitants are descendants of immigrants to the U.S.A., this enables us to use an ancestry-based measure of societal trust, which is econometrically preferable because such a measure is, at least in part, exogenous to regional factors influencing the formation of societal 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 societal trust via the variable *Inherited trust*, which is the weighted average level of inherited societal trust that prevails in a U.S. county. This weighted average is calculated by multiplying the share of each 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 5](#) 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, the mean (median) for the variable % *Mgmt. “for” votes* is 93% (96%), consistent with the extant literature (e.g., [Cai et al., 2009](#)), while the mean (median) for % *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 toward 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 cross-country regressions (see [Appendix B](#)), 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 negatively associated with shareholder voting participation and positively associated with votes in support of management proposals. The results for % *Votes cast*, however, lose statistical significance when we account for the ownership structure of U.S. firms (see column (3)), which reflects the importance of high ownership by U.S. institutional investors combined with the extensive fiduciary duties of such investors.

As a final test, we examine the voting behavior of U.S. institutional investors in their U.S. and foreign 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. By focusing on the voting behavior of U.S. institutional investors in their U.S. investee firms, we alleviate concerns that differences across investor types or cultural differences between firms and investors from different countries, which have been shown to affect investment decisions (e.g., [Ahern et al., 2015](#)), drive our results. Furthermore, studying the voting behavior of U.S. institutional investors in their foreign investee firms allows us to exploit time-series variation in societal trust by relying on the fourth, fifth, and sixth wave of the WVS. More generally, studying U.S. institutional investors enables us to answer the question of whether the relation between societal trust and shareholder voting holds for professional investors.<sup>13</sup>

To analyze the N-PX filing data, we use the Russell 3000 firm-level data from the previous test (see [Table 5](#)). We aggregate voting

decisions of U.S. investment companies at the investee-firm level. That is, for each firm we take all the 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 the U.S. investee firms, we measure societal trust at the county level as in the previous analysis.

[Table 6](#) presents the results for the voting behavior of U.S. institutional investors in their U.S. investee firms between 2003 and 2015. The table shows the results of regressions of the dependent variable % *Mgmt. “for” votes (N-PX)* on the variable of interest, *Inherited Trust*, along with the same controls as used before. Accounting for unobserved U.S. state level heterogeneity, we find the coefficient on *Inherited Trust* to be positive and significant at the 1% level. [Table 7](#) presents the results for the voting behavior of U.S. institutional investors in their foreign investee firms between 2003 and 2015. This analysis allows us to use firm fixed effects to study how changes in societal trust, which we denote *Trust (WVS waves 4, 5 and 6)*, relate to changes in investors’ voting support for management proposals. We find a statistically significant and positive coefficient on *Trust (WVS waves 4, 5 and 6)*, indicating that increases in trust are associated with decreases in dissent voting. However, the regression coefficient is only marginally significant in column (2) of [Table 7](#). Taken together, the results in [Tables 6](#) and [7](#) suggest that U.S. institutional investors vote more in support of management proposals at shareholder meetings of investee firms headquartered in U.S. counties and foreign countries with higher levels of societal trust.

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

## 6. Conclusion

To the best of our knowledge, this is the first study to provide direct empirical evidence on the relation between societal trust and monitoring, particularly shareholder monitoring via voting. In line with extant literature, we hypothesize that in high-trust countries investors are less concerned about being expropriated and therefore they reduce their costly monitoring efforts. We find that societal trust is consistently 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 and fixed effects. They are supported by instrumental variable regressions and a battery of robustness tests, including the use of inherited societal trust at the U.S. county level. Our results are confirmed when we focus on the voting behavior of U.S. institutional investors. Importantly, we find that the negative relation between low levels of shareholder monitoring and future firm performance and value is weaker in high-trust countries. Hence, monitoring tends to create less value in countries with high levels of societal trust, where managers are less likely to exploit the trust of shareholders, consistent with trust being an equilibrium phenomenon. We also find that societal trust is associated with a lower cost of capital, and conclude that trust generally substitutes for costly monitoring by investors.

As a caveat, societal trust may have many covariates in the cross-section of countries and firms and it also exhibits little time-series variation. Hence, despite our best efforts, we caution the reader against a direct causal interpretation of our results. Nevertheless, the evidence we provide in this study informs investors, policy makers, and scholars. In particular, it helps explain the significant differences in voting participation by shareholders across countries and provides information on the conditions in which

<sup>13</sup> [Table 2](#) shows that the negative relation between societal trust and shareholder monitoring via voting is statistically significant for the subsample of firms with below-median free float, suggesting that societal trust is also likely to matter to larger, more sophisticated investors. Trust may matter to such investors as they typically hold large portfolios of numerous investee firms, making the optimal allocation of monitoring and voting efforts an important task for them.

**Table 5**  
Inherited trust and voting – U.S. county-level evidence (2003–15).

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
<b>Voting characteristics</b>						
% 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
<b>Firm characteristics:</b>						
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
<b>Ownership characteristics:</b>						
% 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
<b>County characteristics:</b>						
% 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)
<b>Inherited Trust</b>	<b>-0.265***</b> <b>(-3.04)</b>	<b>-0.181*</b> <b>(-1.87)</b>	<b>0.041</b> <b>(0.55)</b>	<b>0.116***</b> <b>(2.61)</b>	<b>0.132**</b> <b>(2.49)</b>	<b>0.152***</b> <b>(2.91)</b>
3-year avg ROE		0.008*** (2.98)	0.006*** (2.97)		0.001 (1.08)	0.001 (1.05)
Firm age		-0.001*** (-7.07)	0.000 (0.06)		-0.000 (-1.07)	-0.000 (-0.83)
Leverage		-0.043*** (-5.15)	-0.037*** (-5.31)		-0.000 (-0.11)	0.001 (0.18)
Ln(market cap)		0.022*** (20.90)	0.019*** (24.36)		0.004*** (9.77)	0.005*** (11.72)
MTB		-0.009*** (-6.48)	-0.006*** (-6.09)		0.001 (1.17)	0.001 (0.94)
Special meeting		-0.138*** (-21.30)	-0.136*** (-21.11)		-0.147*** (-17.98)	-0.145*** (-17.84)
Stock return		0.001 (0.26)	0.001 (0.40)		0.005*** (4.84)	0.005*** (4.42)
% College		-0.000 (-0.38)	-0.000 (-0.79)		0.000 (0.14)	0.000 (0.36)
Household income		0.000 (0.08)	-0.000 (-0.46)		-0.000 (-0.17)	-0.000 (-0.19)
Median age		0.002 (0.83)	0.001 (0.43)		-0.000 (-0.04)	0.000 (0.22)
Non-white population		0.020 (1.30)	0.004 (0.35)		0.010 (1.30)	0.009 (1.13)
Population density		-0.000 (-1.51)	-0.000 (-0.76)		-0.000 (-0.65)	-0.000 (-1.00)
Population growth		0.348** (2.51)	0.249** (2.03)		0.036 (0.40)	0.046 (0.51)
% Free float			-0.003*** (-19.12)			-0.000*** (-2.85)
% Shares foreign investors			-0.001*** (-5.69)			0.000 (0.93)
% Shares institutional investors			0.000* (1.70)			-0.000*** (-3.53)
% Shares largest investor			0.000 (1.20)			0.000 (1.48)
Herfindahl top 10 investors			0.000 (1.51)			0.000 (0.92)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor type FE	No	No	Yes	No	No	Yes
U.S. state 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

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 the population's 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 variables are defined in Appendix A. 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.

**Table 6**  
Voting behavior of U.S. institutional investors in U.S. firms (2003–15).

Dep. variable:	% Mgmt. "for" votes (N-PX)	
	(1)	(2)
<b>Inherited Trust</b>	<b>0.289***</b> <b>(3.86)</b>	<b>0.347***</b> <b>(4.18)</b>
3-year avg ROE	0.002 (0.83)	0.002 (0.95)
Firm age	0.000** (2.38)	0.000** (2.35)
Leverage	-0.013* (-1.73)	-0.013* (-1.68)
Ln(market cap)	0.012*** (14.19)	0.012*** (13.91)
MTB	-0.002* (-1.69)	-0.002* (-1.60)
Special meeting	-0.003 (-1.53)	-0.003 (-1.43)
Stock return	-0.049*** (-8.19)	-0.049*** (-8.24)
% Free float	0.000 (1.47)	0.000* (1.65)
% Shares foreign investors	-0.000 (-1.35)	-0.000 (-1.26)
% Shares institutional investors	0.001*** (5.05)	0.001*** (5.20)
% Shares largest investor	-0.001*** (-2.90)	-0.001*** (-2.65)
Herfindahl index top 10 Investors	-0.000* (-1.88)	-0.000** (-2.01)
% 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)
Industry FE	Yes	Yes
Largest investor type FE	Yes	Yes
U.S. state FE	Yes	Yes
Year FE	Yes	Yes
Observations	22,029	21,732
Adjusted R-squared	0.146	0.146

This table reports regression results of % Mgmt. "for" votes (N-PX) on Trust, county characteristics, firm characteristics, and ownership characteristics for a sample of U.S. Russell 3000 firms between 2003 and 2015. *Inherited trust* is the weighted average WVS trust level of a population's 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 variables are defined in Appendix A. All regressions include a constant (not reported) as well as year, U.S. state and industry fixed effects and fixed effects for the type of largest investor. Investor type classifications are: bank, corporation, family, government, institutional, and management. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% level, respectively.

shareholder participation is greater. It further provides information on when shareholder voting is more likely to create value. This information is important for investors, who benefit from understanding how agency problems and the value of voting vary across countries. In particular, investors may use this information to identify those countries and those firms where the monitoring of management is likely to be more valuable. In turn, the results from this study help managers and boards assess how much support they are likely to receive from their shareholders given their country and firm characteristics.

**Table 7**  
Voting behavior of U.S. institutional investors in foreign firms (2003–15).

	% Mgmt. "for" votes (NPX)	
	(1)	(2)
<b>Trust (WVS waves 4, 5 and 6)</b>	<b>0.072**</b> <b>(2.24)</b>	<b>0.061*</b> <b>(1.69)</b>
3-year avg ROE	0.006 (0.78)	0.009 (1.00)
Firm age	0.003 (1.44)	0.001 (0.22)
Leverage	-0.049*** (-4.51)	-0.027** (-2.30)
Ln(market cap)	0.002 (1.02)	0.003 (1.06)
MTB	0.000 (0.62)	0.000 (0.28)
Stock return	0.000 (1.36)	0.000 (1.02)
% Free float	0.000 (0.73)	0.000 (0.94)
% Shares foreign investors	0.000 (1.14)	0.000* (1.81)
% Shares largest investor	-0.000 (-0.18)	0.000 (0.25)
% Shares institutional investors	0.000 (0.14)	0.000 (0.66)
Herfindahl index top 10 investors	-0.000 (-0.11)	-0.000 (-0.45)
Rule of law		0.090*** (6.55)
GDP per capita		-0.000 (-0.90)
Market cap/GDP		-0.000*** (-3.24)
Firm FE	Yes	Yes
Year FE	Yes	Yes
Observations	39,249	30,041
R-squared	0.383	0.408

This table reports regression results of % Mgmt. "for" votes (N-PX) on Trust, country characteristics, firm characteristics, and ownership characteristics for a sample of international firms between 2003 and 2015. 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' from WVS waves 4, 5 and 6. % 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) as well as firm and year fixed effects. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. \*\*\*, \*\*, \* denote statistical significance at the 1%, 5%, and 10% level, respectively.

Finally, 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. In this regard, we provide the first systematic evidence that average shareholder voting participation across countries worldwide equals only about 60%, which has important implications for governance research and practice.

### CRedit authorship contribution statement

**Simon Lesmeister:** Investigation, Data curation, Formal analysis, Visualization, Writing – original draft, Writing – review & editing. **Peter Limbach:** Conceptualization, Methodology, Writing – original draft, Writing – review & editing, Validation, Project administration, Supervision. **Marc Goergen:** Conceptualization, Methodology, Writing – original draft, Writing – review & editing, Validation, Project administration, Supervision.

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**Supplementary materials**

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**Appendices**

Appendix A: Variable definitions.

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

Variable	Definition
<i>Trust variables:</i>	
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)

(continued)

Variable	Definition
<i>Voting variables (ISS):</i>	
# 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 the top 50 investors.
"For" vote	Indicator variable, 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.

(continued)

Variable	Definition	Variable	Definition
Mgmt. proposal rejected	Indicator variable, which equals one if at least one management-initiated proposal received less than 50% of votes cast at a given shareholder meeting.	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.
<i>Firm and governance variables (Eikon):</i>		Log total assets	The natural logarithm of the company's total assets for a given fiscal year winsorized at the 1th and 99th percentiles.
% Free float	The percentage of shares not held by the top 50 largest investors, defined as the difference between 100% and the percentage of shares held by the top 50 largest investors for a given fiscal year.	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.
% Shares domestic investors	The percentage of shares held by domestic investors for a given fiscal year.	Special meeting	Indicator variable equal to one if the shareholders vote in a special meeting, and zero otherwise.
% Shares foreign investors	The percentage of shares held by foreign investors for a given fiscal year.	Stock return	The firm's stock return for a given fiscal year winsorized at the 5th and 95th percentiles.
% Shares institutional investors	The percentage of shares held by institutional investors for a given fiscal year winsorized at the 1st and 99th 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.
% Shares largest investor	The percentage of shares held by the largest investor.	<i>Bond issue variables (SDC):</i>	
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.	Callable	Indicator variable, which is equal to one if the bond issue is guaranteed, and zero otherwise.
CEO cash/total compensation	The fraction of cash to total compensation of a firm's CEO.	Guaranteed	Indicator variable, which is equal to one if the bond issue is guaranteed, and zero otherwise.
CEO total compensation	The total compensation of the firm's CEO.	High yield	Indicator variable, which is equal to one if the bond has a high-yield rating, and zero otherwise.
ESG rating	A firm's ESG rating.	Log gross proceeds	The natural logarithm of bond issues' gross proceeds in USD.
Firm age	The number of years since IPO for a given fiscal year.	Log maturity	The natural logarithm of bond issues' maturity in years.
Herfindahl top 10 investors	Herfindahl index based on the company's top 10 investors for a given fiscal year.	Spread	At-issue bond spread (i.e., the yield of the issue above the treasury yield).
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.	USD denominated	Indicator variable, which is equal to one if the bond is US\$ denominated, 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.	<i>Country variables:</i>	
Largest investor = bank or corporation or family or government or institutional investor or management	Six 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.	Confidence in companies or the government or the press	
Leverage	The company's total debt divided by its total assets for a given fiscal year winsorized at the 5th and 95th percentiles.	Djankov ADRI	Anti-director rights index (Djankov et al., 2008).

(continued)

(continued)

Variable	Definition
Djankov ASDI	Anti-self-dealing index (Djankov et al., 2008).
Djankov English	Indicator variable, which is equal to one if the company's country of headquarters is of English legal origin, and zero otherwise (Djankov et al., 2008).
Djankov French	Indicator variable, which is equal to one if the company's country of headquarters is of French legal origin, and zero otherwise (Djankov et al., 2008).
Djankov German	Indicator variable, which is equal to one if the company's country of headquarters is of German legal origin, and zero otherwise (Djankov et al., 2008).
GDP per capita	Country of headquarters' gross domestic product (GDP) per capita in thousands of USD. (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 (Giannetti and Koskinen, 2010).
<i>U.S. county variables:</i>	
% 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)

Variable	Definition
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)
<i>Instrumental variables:</i>	
Genetic Distance	Measure of a country's genetic distance from the United States based on similarly non-expressed genetic material (Spolaore and Wacziarg, 2009).
% Hierarchical religion in 1900	Proportion of people in a country in 1900 who consider themselves Roman Catholic or Muslim (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 (from Wikipedia's Wikidata).
Pronoun drop	Indicator variable, which is equal to one if the country's population speaks a language in which pronoun drop is permitted, , and zero otherwise (Licht et al., 2007).
Rainfall variation	The natural logarithm of the coefficient of intertemporal variation of monthly rainfall from 1900 through 2009 (Davis, 2016).

(continued)

## Appendix B: Societal trust and shareholder voting (full regression models)

This table reports the results from OLS regressions of % *Votes cast* (columns 1–3) and % *Mgmt. “for” votes* (columns 4–6) 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. % *Mgmt. “for” votes* is the average percentage of votes cast in support of management-initiated proposals at a

given shareholder meeting. *Trust* is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include year and industry fixed effects 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			% Mgmt. “for” votes		
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Trust</b>	<b>-41.765***</b> (-32.14)	<b>-41.747***</b> (-6.15)	<b>-41.372***</b> (-6.04)	<b>5.723***</b> (18.50)	<b>12.809***</b> (9.02)	<b>12.718***</b> (9.00)
3-year avg ROE		3.183*** (3.93)	3.319*** (4.00)		-0.025 (-0.18)	-0.015 (-0.10)
Firm age		0.027** (1.99)	0.031** (2.26)		0.003 (1.15)	0.003 (1.39)
Leverage		-0.792 (-0.67)	-0.498 (-0.40)		-0.481 (-1.01)	-0.537 (-1.07)
Ln(market cap)		2.286*** (11.01)	2.217*** (10.48)		-0.048 (-1.28)	-0.040 (-1.03)
MTB		0.001 (0.18)	0.000 (0.08)		-0.000 (-0.10)	-0.000 (-0.10)
Special meeting		-3.317*** (-11.09)	-3.307*** (-10.55)		-0.718*** (-6.25)	-0.732*** (-6.04)
Stock return		-0.692** (-1.98)	-0.897** (-2.46)		0.403*** (4.82)	0.404*** (4.77)
% Free float		-0.261*** (-12.94)	-0.253*** (-12.19)		-0.022*** (-5.76)	-0.025*** (-6.41)
% Shares foreign investors		0.107*** (7.64)	0.108*** (7.76)		-0.017*** (-5.38)	-0.018*** (-5.44)
% Shares institutional investors		-0.279*** (-11.50)	-0.260*** (-10.61)		-0.039*** (-6.56)	-0.040*** (-6.81)
% Shares largest investor		0.031 (0.76)	0.028 (0.69)		0.002 (0.26)	0.002 (0.29)
Herfindahl top 10 investors		0.001*** (2.75)	0.001*** (2.99)		0.000* (1.91)	0.000 (1.62)
Djankov ADRI		-3.268*** (-3.75)	-3.122*** (-3.55)		0.897*** (3.78)	0.819*** (3.54)
Djankov ASDI		-5.467 (-0.83)	-4.393 (-0.66)		3.300*** (2.61)	2.883** (2.32)
GDP per capita		0.184*** (2.65)	0.179** (2.49)		-0.095*** (-4.75)	-0.094*** (-4.82)
Market cap/GDP		0.007** (2.31)	0.006** (2.04)		-0.004*** (-4.24)	-0.004*** (-4.37)
Rule of law		5.566*** (3.73)	5.645*** (3.73)		0.241 (0.53)	0.301 (0.66)
Avg trust foreign investors			-3.816 (-1.62)			0.601 (1.11)
Djankov legal origin FE	No	Yes	Yes	No	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Largest investor type FE	No	Yes	Yes	No	Yes	Yes
Subcontinent FE	No	Yes	Yes	No	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	20,716	13,383	12,202	39,436	25,838	24,295
Adjusted R-squared	0.219	0.455	0.452	0.024	0.091	0.091

### Appendix C: Alternative measures of shareholder dissent and different types of management proposals

Panel A of this table reports results from re-estimating the regression shown in column (5) of Appendix B with the dependent variables *Dissent*, % *Mgmt. “against” votes*, *Mgmt. proposal rejected*, and # *Shareholder proposals*. *Dissent* is an indicator variable, which equals one if the variable % *Mgmt. “for” votes* takes a value in the first quartile of its distribution, and zero otherwise. % *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, and zero otherwise. # *Shareholder proposals* is the number of proposals initiated by shareholders at a given shareholder meeting. Panel B of this table re-

ports results from re-estimating the regression shown in column (5) of Appendix B, with *Capitalization*, *Compensation*, *Directors*, and *M&A* being the average percentage of votes cast in support of the respective management proposal types. *Trust* is the proportion of people agreeing that ‘most people can be trusted’ against the alternative that ‘you can’t be too careful in dealing with people’. All regressions include a constant (not reported). All variables are defined in Appendix A. Robust t-statistics (in parentheses) are based on standard errors clustered by firm. All specifications include sub-continent, year, and industry fixed effects 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.

Panel A: Alternative measures of shareholder dissent				
	% Mgmt. “against” votes (1)	Dissent (2)	Mgmt. proposal rejected (3)	# Shareholder proposals (4)
<b>Trust</b>	<b>-11.942***</b> <b>(-7.02)</b>	<b>-0.999***</b> <b>(-10.79)</b>	<b>-0.317***</b> <b>(-7.02)</b>	<b>-0.192***</b> <b>(-3.32)</b>
Country controls	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Subcontinent 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
Panel B: Results for different types of management proposals				
Dep. variables:	Capitalization (1)	Compensation (2)	Directors (3)	M&A (4)
<b>Trust</b>	<b>10.361***</b> <b>(4.61)</b>	<b>29.946***</b> <b>(7.15)</b>	<b>6.561***</b> <b>(4.40)</b>	<b>6.102</b> <b>(1.15)</b>
Country controls	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes
Ownership controls	Yes	Yes	Yes	Yes
Djankov legal origin FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Largest investor type FE	Yes	Yes	Yes	Yes
Subcontinent FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	8,470	7,495	18,027	9,512
Adjusted R-squared	0.125	0.146	0.084	0.013

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