

# Home bias in shareholder voting

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## ABSTRACT

Institutional investors' proxy voting decisions are influenced by their geographic proximity to portfolio firms. Using a sample of over 50 million votes cast by U.S. and non-U.S. investors globally, I find that investors are more likely to vote with management at domestic firms than at foreign firms, especially when ISS disagrees with management. I further demonstrate that the home bias can be explained by local investors' information advantage and business ties with domestic firms. These results suggest that home bias is an important determinant of proxy voting behavior, and the existence of home bias is at least partially driven by rationality-based reasons.

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## 1. Introduction

Geographic proximity between institutional investors and portfolio firms affects governance activities. On the one hand, local investors have lower costs for gathering and accessing firm-level information, and firms with higher local ownership has been found to be associated with better corporate governance (Gaspar and Massa, 2007; Chhaochharia, Kumar and Niessen-Ruenzi, 2012). In contrast, foreign investors engage less in governance activities due to information asymmetry (Kang and Kim, 2010). On the other hand, domestic investors are more likely to have business relations with local companies, whereas foreign investors tend to be more independent and therefore can act as more effective monitors. Along this line of argument, Ferreira and Matos (2008) find a positive relationship between foreign ownership and firm valuation and operating performance. Moreover, foreign investors have a more important role to play in countries with weak shareholder protection (Aggarwal, Erel, Ferreira and Matos, 2011).

Despite the fact that proxy voting is an effective corporate governance mechanism for exercising shareholder rights around the world (Iliev, Lins, Miller and Roth, 2015), the role of geographic proximity in shareholder voting is much less understood, especially on a global scale. Previous studies have found that the geographic proximity of institutional investors could facilitate information exchange and coordinated voting (Iliev and Lowry, 2014; Huang and Kang, 2017; Huang, 2023). In addition, Das (2011) examines the geographic proximity between fund managers and portfolio firms within the border of the U.S. and finds that fund managers vote more in favor of management in locally headquartered firms. However, the voting patterns of domestic investors versus foreign investors is still unclear.

In this study, I examine the relationship between geographic proximity and shareholders' voting decisions. First, I test whether institutional investors are more likely to vote for management at firms that are located in the same country or same continent, and that share a common language. Second, I explore the case of environmental, social and governance (ESG) home bias in the context of shareholder voting. Lastly, I investigate possible explanations for the presence of home bias in shareholder voting.

I use the Investor Voting database from Insightia (formerly known as Proxy Insights) that comprises over 50 million votes cast in 2012 to 2022 by 1,336 institutional investors from 24 countries on 15,713 companies located in 59 different countries. The unit of observation is on the investor-firm-proposal-year level. The granularity of the data allows me to exploit a high-dimensional fixed effects model that controls for time-varying unobserved heterogeneity on investors, firms, and proposals.

I find that investors are on average 4.6% more likely to vote with management at domestic firms in comparison to foreign firms across all proposals. This result is obtained after controlling for ISS recommendation, country weight in the voting portfolio, investor  $\times$  year fixed effects, firm  $\times$  year fixed effects, and even proposal fixed effects, thereby eliminating omitted variable bias at various levels. The size of this home bias is three times larger (12.7%) for contentious votes on which ISS and management disagree, representing a 45% increase in the likelihood of voting with management relative to the unconditional promanagement rate for contentious proposals (28.3%).

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I also show an incremental effect of geographic proximity on promanagement voting for environmental & social (E&S) proposals relative to governance proposals, which means that investors are more lenient on E&S issues towards managers at home, while punishing managers abroad for the same issues. This result stands in sharp contrast with a prior study by Groen-Xu and Zeume (2021). My results suggest that investors are likely to choose the benefits of geographic proximity over altruistic motives when exercising their voting rights.

Once I confirm the existence of home bias in shareholder voting, I turn to the second research question: What is the mechanism that drives home bias in shareholder voting? I propose two potential, non-mutually exclusive channels that are consistent with the home bias phenomenon, namely information advantage and business ties.

First, local investors may possess an information advantage in proxy research that enables them to cast more informed votes. In general, local investors are likely to have lower communication costs, lower information gathering costs, and easier access to private information (Chhaochharia et al., 2012; Lee, 2023). When it comes to director elections, which account for nearly three-quarters of all proposals at annual meetings, local investors may have access to more “soft” information about the director nominees through a shared social network (Butler and Gurun, 2012). This information allows local investors to acquire private signals about the true quality of the candidates, and voting with management may simply be the best strategy to maximize shareholder value in these cases.

If there is indeed an information advantage for local investors, this advantage should be particularly pronounced when there is greater information asymmetry. I conduct heterogeneity tests with regards to the degree of opacity at the country level. I use several proxies for information asymmetry, and find that the home bias is intensified when the firms are located in non-English speaking countries, in countries with less financial disclosure or governance transparency, and in countries with earlier cutoff dates for registering votes before the shareholder meeting.

Second, investors are more likely to have business ties and board connections with local firms, and such connections could lead to more promanagement voting behavior (Davis and Kim, 2007; Cvijanovic, Dasgupta and Zachariadis, 2016; Calluzzo and Kedia, 2019). Investors are more likely to manage pension plans for local firms, own stocks in local firms, or share the same executives and directors with local firms. This constitutes a conflict of interest and could influence local investors’ voting behavior in two different ways. On the one hand, investors may avoid disagreeing with managers in public for fear of losing lucrative businesses from local firms. Instead they may prefer quiet agreement on governance changes through private communication with connected firms. On the other hand, firm managers have incentives to solicit support from these local investors to pursue private interests, representing a type of demand-driven promanagement voting.

I expect promanagement voting at domestic firms to increase when there is less protection for foreign investors who are more likely to be independent, if such behavior is driven by business ties. In line with this hypothesis, I find that local investors agree more with managers in countries where the legal system encourages self-dealing and favors managers or dominant shareholders, and where the corruption level is high. Additionally, according to the predictions in Cvijanovic et al. (2016), managers have more incentives to solicit votes from shareholders with whom they have business ties when the vote has a bigger probability of changing the voting outcome (i.e., when the proposal passes or fails by a small margin). Following this prediction, I find that the voting home bias is indeed stronger for contested proposals, lending further support to the channel of business ties.

In short, my results suggest that both information asymmetry and business ties could at least partially explain the existence of home bias in shareholder voting.

To find out how investors acquire information and conduct proxy research for domestic and foreign firms prior to voting, I also hand collect the voting policies of institutional investors in my sample from their websites and SEC filings. In a qualitative analysis, I find that investors address the geographic heterogeneity of corporate governance and voting practices through various means. Large investors tend to adopt multiple voting policies for different regions, and many investors follow separate engagement and voting processes for domestic and foreign holdings. For example, some non-U.S. investors obtain additional proxy research for domestic firms from local proxy advisors that only operate within a certain market, or conduct in-house proxy research for domestic firms while outsourcing foreign votes to external proxy advisors.

My paper is among the first to document a sizeable home bias in shareholder voting and to try to identify the mechanism behind it. It builds on Iliev et al. (2015) which discusses the effectiveness of the voting mechanism for exercising governance around the world, but differs by highlighting a specific type of inefficiency in monitoring portfolio companies globally. I contribute to the broader corporate governance literature by expanding the research of Chhaochharia et al. (2012) and Kim, Miller, Wan and Wang (2016) on the influence of geographic proximity on governance outcomes to proxy voting, a key component of the corporate governance process.

## 2. Literature review

This paper is mainly related to two strands of literature: home bias in financial economics and proxy voting behavior of institutional investors. I review these two strands of literature in this section.

### 2.1. Home bias

Home bias is a well-documented phenomenon in finance. Investors allocate a disproportionately large fraction of their investment portfolios to domestic equity, even though the legal and technological barriers of investing internationally have essentially diminished in the 21st century. The early work by French and Poterba (1991) and Tesar and Werner (1995) reveals investor's strong preference for domestic equity despite the benefits of international diversification. Not only are retail investors subject to home bias, but also institutional investors such as mutual fund managers (Chan, Covrig and Ng, 2005). The home bias also extends to domestic portfolios where firms within shorter distance (such as in the same state) are disproportionately overweighted (Grinblatt and Keloharju, 2001; Ivković and Weisbenner, 2005; Pool, Stoffman and Yonker, 2012).

Two possible explanations have been developed to account for this phenomenon: information asymmetry and behavioral bias.

Some studies contend that local investors possess an information advantage over nonlocal investors (Coval and Moskowitz, 1999; Baik, Kang and Kim, 2010). Geographic proximity provides local investors with easier access to in-person conversations with employees, managers, suppliers, and customers of local firms, as well as lower costs of visiting company facilities on the spot, which constitutes valuable private information. Local investors may obtain unique information about the firm through local media. Other studies argue that local investors may choose to maximize the information advantage by actively seeking out more information about local firms (i.e., information specialisation). Since local investors possess more accurate information about the home asset's payoff, local investors could use that information to trade accordingly and generate excess return. By that logic, investors should specialize in research on home assets given limited capacity, which in turn leads to higher excess return (Van Nieuwerburgh and Veldkamp, 2009). In line with this theoretical prediction, Dyer (2021) provides empirical evidence that local investors actively demand more public information on local assets. Schumacher (2017) documents that consistent with the specialized learning explanation, international mutual funds overweight industries that are relatively large in their domestic stock market in their foreign portfolios, but underweight large domestic industries at home.

If information asymmetry could at least partially explain the existence of home bias, one would expect local investors to generate better performance relative to nonlocal investors. Existing evidence on this topic is mixed. Ivković and Weisbenner (2005) find that individual investors not only exhibit a strong preference for local investments, but also generate excess returns from their local holdings relative to their nonlocal holdings. Ferreira, Matos, Pereira and Pires (2017) find that local institutional investors show better performance when they possess a domestic information advantage (outside the United States and in countries where the official language is not English). However, Seasholes and Zhu (2010) and Pool et al. (2012) find opposite results, concluding that local holdings do not generate abnormal performance. It appears that rationality-based explanations alone cannot fully explain the persistence of home bias.

Another group of studies leans towards behavioral bias as a more plausible explanation for home bias. For example, Lin and Viswanathan (2015) find geographic preference in online investments and attribute it to behavioral bias. Familiarity bias is one of the most common behavioral biases in investment decisions (Huberman, 2001). Common language, similar culture, and short distance could all contribute to familiarity bias (Grinblatt and Keloharju, 2001). Salience bias has also been proposed as a possible explanation for home bias (Dyer, 2021). Investors receive more exposure to local news media of local firms, which naturally leads to increased salience.

Recent studies have also confirmed the existence of home bias among information intermediaries. Equity analysts make more precise earnings forecasts for domestic firms and geographically proximate firms (Malloy, 2005; Bae, Stulzb and Tan, 2008; Du, Yu and Yu, 2017). Local analyst recommendations are also more optimistic than foreign analyst recommendations in emerging markets (Lai and Teo, 2008). Similarly, credit analysts award more favorable ratings to issuers from their home states than to issuers from other states (Cornaggia, Cornaggia and Israelsen, 2020).

I extend this strand of literature by examining whether home bias exists in the realm of proxy voting, where investors monitor a large number of portfolio companies all over the world. In addition, I construct a series of tests to identify whether home bias here is driven by information asymmetry or business ties.

## 2.2. Shareholder voting

There is a growing literature on shareholder voting as a monitoring mechanism. Given that mutual funds are required by the U.S. Securities and Exchange Commission (SEC) to disclose their votes cast on portfolio companies since 2003, the availability of comparable data has given rise to a large number of studies on mutual fund voting behavior. Previous studies have found that mutual fund voting is influenced not only by fund characteristics (Iliev and Lowry, 2014; Heath, Macciocchi, Michaely and Ringgenberg, 2022), but also by the relationship between mutual funds and portfolio companies, such as business ties (Davis and Kim, 2007; Cvijanovic et al., 2016), board connections (Calluzzo and Kedia, 2019), and cross-ownership (He, Huang and Zhao, 2019). Another strand of literature examines the effect of fund managers' demographic characteristics and personal experience on mutual fund voting decisions. Butler and Gurun (2012) showed that fund managers who are in the same educational network as company CEOs are more likely to vote against shareholder proposals that aim at limiting executive compensation. Beyond shared social network, shared racial/ethnic identity also affects fund managers' votes for director nominees (Sulaeman and Ye, 2023). While it is a well-known fact that mutual fund managers are subject to behavioral biases, recent studies have demonstrated that such biases are also present in mutual fund voting. For example, Foroughi, Marcus and Nguyen (2022) find that fund managers located in more polluting countries vote more in favor of environmental proposals. Similarly, Giuli, Garel, Michaely and Romec (2022) show that fund managers exposed to abnormally hot temperatures are more likely to support environmental proposals.

Investors vote by proxy at general meetings of foreign companies in investment holdings. This gives rise to proxy advisory firms (such as ISS and Glass Lewis) who issue voting recommendations for companies globally. Many studies have been dedicated to investigating the impact of proxy advisors on voting and governance outcomes (Cai, Garner and Walkling, 2009; Malenko and Shen, 2016; Malenko and Malenko, 2019; Matsusaka and Shu, 2021).

I contribute to this growing literature by examining the voting behavior beyond mutual funds, but rather on the investor level. I also broaden the geographic coverage of this literature by comparing shareholder voting patterns around the world.

## 3. Data and empirical design

### 3.1. Sample construction

As noted by Iliev et al. (2015), an ideal dataset to study shareholder voting patterns globally would consist of the votes cast by all shareholders domiciled in all countries. However, this has not been possible due to minimal regulatory requirement outside the U.S. As a result of limited data availability, previous studies tend to focus only on the U.S. market (i.e., votes cast by U.S. investors in domestic and foreign companies), leaving a research gap for an international review. This study bridges this gap in the shareholder voting literature by expanding the research scope to non-U.S. investors. The adoption of an international perspective is crucial in the context of shareholder voting for two reasons. First, there are considerable operational challenges and information barriers associated with voting by proxy at foreign companies (NBIM, 2020). The high degree of disparity between markets has largely been overlooked in the extant literature. Second, country characteristics are important determinants of governance activities (Doidge, Andrew Karolyi and Stulz, 2007), and it may not be entirely justifiable to generalize findings in the U.S. to other markets in this setting.

Table 1: Sample distribution by country

Country/region	County ISO code	No. of companies	No. of votes	No. of investors
US	US	5,533	23,777,953	933
Japan	JP	1,460	5,975,090	49
UK	GB	589	4,151,493	80
China	CN	1,162	2,737,433	0
France	FR	202	1,973,278	14
Canada	CA	553	1,839,412	98
Switzerland	CH	153	1,399,176	16
Sweden	SE	172	975,498	3
Hong Kong	HK	417	965,436	4

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Germany	DE	224	899,376	7
India	IN	597	781,658	35
South Africa	ZA	153	731,445	18
Australia	AU	368	634,654	32
Netherlands	NL	115	623,684	15
Ireland	IE	72	620,845	3
Taiwan	TW	686	608,271	0
South Korea	KR	731	591,385	4
Spain	ES	91	523,849	0
Brazil	BR	226	352,152	2
Denmark	DK	52	324,325	3
Singapore	SG	149	294,490	1
Poland	PL	79	277,104	0
Mexico	MX	93	271,315	0
Russian Federation	RU	62	269,723	0
Belgium	BE	62	242,439	0
Malaysia	MY	246	236,658	0
Thailand	TH	163	234,344	5
Italy	IT	145	232,868	2
Finland	FI	60	231,007	4
Philippines	PH	79	206,448	0
Turkey	TR	109	192,273	0
Norway	NO	51	174,667	5
Israel	IL	121	167,211	0
Luxembourg	LU	44	151,493	2
Indonesia	ID	162	127,248	0
Chile	CL	65	103,120	0
Austria	AT	39	91,221	1
Saudi Arabia	SA	42	68,838	0
Greece	GR	43	66,125	0
United Arab Emirates	AE	32	54,885	0
Portugal	PT	18	43,912	0
New Zealand	NZ	43	35,484	0
Colombia	CO	22	34,347	0
Argentina	AR	20	31,031	0
Puerto Rico	PR	6	27,296	0
Cyprus	CY	12	20,732	0
Hungary	HU	6	20,617	0
Czech Republic	CZ	7	19,751	0
Vietnam	VN	36	13,618	0
Romania	RO	9	10,955	0
Pakistan	PK	40	10,171	0
Egypt	EG	9	9,005	0
Mauritius	MU	8	7,303	0
Monaco	MC	8	7,186	0
Peru	PE	13	5,872	0
Nigeria	NG	23	5,752	0
Malta	MT	4	5,503	0
Georgia	GE	2	5,186	0
Kuwait	KW	25	5,003	0
All		15,713	54,498,614	1,336

**Table 2**  
Summary statistics for investors' voting portfolio

	N	Mean	St. Dev.	Min	P25	Median	P75	Max
No. of countries	11,075	14	15	1	3	7	21	58
No. of firms	11,075	440	1,012	1	33	88	302	8,251
No. of votes	11,075	4,921	11,207	1	352	947	3,470	92,306

Notes: This table presents summary statistics on the voting portfolio on the investor-year level. The voting portfolio is defined as all the votes cast by an investor on a yearly basis. N refers to the number of voting portfolios on the investor-year level. No. of countries refers to the number of countries where the firms in a voting portfolio are headquartered. No. of firms refers to the number of firms in a voting portfolio. No. of votes refers to the total number of votes cast by an investor in a voting portfolio.

I use a novel dataset from Insightia (formerly known as Proxy Insights) that compiles the votes cast by global institutional investors on proposals for companies around the world.<sup>1</sup> While not all markets are covered, to my knowledge it provides by far the most comprehensive data on voting records of non-U.S. investors. I include the votes cast by banks, fund managers and investment firms in my analysis.<sup>2</sup> This encompasses proxies voted on behalf of pooled investment funds, ETFs, and certain separately managed accounts. Apart from voting information (e.g., vote cast, voting outcome, ISS & Glass Lewis recommendations, proposal content), the dataset also contains basic information about the companies including company name, location of headquarter and industry sector, as well as about the investors including investor name and asset under management (AUM). Additionally, I obtain information on investor domicile from Orbis by manually matching investor names and cross check the data from Orbis with information on the investor's own website. Countries with less than 5000 votes and investors with less than 500 votes over the sample period are excluded. Occasionally when an investor manages multiple client accounts or mutual funds that hold securities of the same issuer, the investor may vote differently on the same matter depending on the account or fund managed. To avoid inconsistency, I also exclude these contradictory votes. Lastly, I exclude companies and investors headquartered in Bermuda because the choice of headquarter is likely due to tax reasons and does not reflect the location of the company's real operations.

The final sample contains 54.5 million distinct votes that are cast on 15,713 firms headquartered in 59 countries by 1,336 institutional investors in the period between 2012 and 2022. Table 1 exhibits the geographic distribution of institutional investors and corporations in the final sample.

Table 1 shows that there is considerable variation across countries in the number of firms in my sample, ranging from two in Georgia to 5,533 in the U.S. It's worth noting that my sample covers a significant number of firms in non-English speaking countries as well as in emerging markets. The diversity of geographic distribution facilitates a comprehensive comparison of investor voting globally. The number of investors by country also varies substantially. While the majority of investors that disclose their voting records are domiciled in the U.S., many investors located in countries where there is no regulatory disclosure requirement also choose to make their votes publicly accessible, presumably for marketing or reputational purposes. Despite the concentration of investor domicile, the number of votes cast is geographically more evenly distributed in comparison.

Table 2 presents summary statistics on the voting portfolio on the investor-year level. I summarize all the votes cast by each investor on a yearly basis and name it the investor's voting portfolio. An investor votes on average in nearly 14 different countries in a given year, which underscores the global nature of shareholder voting. The number of firms in an investor's voting portfolio varies from one to 8,251 annually, while the number of votes falls in the range of one to 92,306.

<sup>1</sup>According to Insightia, the data is sourced from disclosures to market regulators, investors' and companies' own websites, Freedom of Information Act requests, and direct communication with investors.

<sup>2</sup>The Insightia investor voting database also comprises the votes cast by other types of investors such as labor union and pension funds that make up a small fraction of the database. I do not include these investors in my sample for the sake of comparability, as these investors may have other incentives for voting differently (e.g., Duan, Jiao and Tam (2021)). Also, voting data on these investors are mostly confined to the U.S., which does not add much value to the analysis.



### 3.2. Descriptive statistics

I start by conducting a univariate analysis of investors' voting patterns for domestic and foreign firms. In Table 3, the first row shows the distribution of investors votes for the full sample. Unconditionally, investors vote with management 91.04% of the time at home compared to 86.36% of the time abroad (i.e., 4.68% difference). A two-proportions z-test confirms that the difference is statistically significant at the 1% level. Previous studies have found that investors tend to devote more resources to proxy research when ISS recommendation disagrees with management recommendation (Iliev and Lowry, 2014; Heath et al., 2022; Sulaeman and Ye, 2023), so I split the sample into consensus items (rows 2 and 3) and contentious items (rows 4 and 5) separately. It is worth noting that the home bias is more pronounced for contentious votes. Even though the overall promanagement level is lower for contentious votes, which is unsurprising given the powerful influence of ISS, the difference of the support rate for management between domestic firms and foreign firms is much larger (18.61% for items where management recommends yes and ISS recommends no, and 19.37% for items where management recommends no and ISS recommends yes). Overall, I find that the support rate for management is consistently higher in domestic firms relative to foreign firms, which suggests a strong home bias in shareholder voting.

**Table 3**  
Investor voting on domestic versus foreign firms

Mgmt. rec	ISS rec	Domestic firms			Foreign firms			Two-proportions
		With (%)	Against (%)	N	With (%)	Against (%)	N	z-test
All		91.04	8.96	22,656,367	86.36	13.64	31,842,247	(0.00)
<b>Consensus</b>								
Yes	Yes	95.37	4.63	20,695,754	92.48	7.52	28,897,656	(0.00)
No	No	90.23	9.77	227,517	89.34	10.66	219,501	(0.00)
<b>Contentious</b>								
Yes	No	39.95	60.05	1,255,721	21.34	78.66	2,544,634	(0.00)
No	Yes	38.24	61.76	477,375	18.87	81.13	180,456	(0.00)

Notes: With (%) indicates the percentage of votes with management, whereas Against (%) indicates the percentage of votes against management. Abstain and withhold are categorized under no for the sake of simplicity. A firm is classified as domestic when it is domiciled in the same country as the investor who casts the vote, and foreign when domiciled in a different country. Consensus items refer to proposals where ISS recommendation is the same as management recommendation, while contentious items refer to proposals where ISS recommendation disagrees with management recommendation. P-values in parenthesis.

Table 3 presents the difference in promanagement votes among for domestic and foreign among all pooled votes. A potential caveat is that the results could be driven by a few large investors who cast the majority of votes globally, or by peculiar patterns in a given year. To rule out this possibility, I use an investor-level metric of abnormal support rate of management following Sulaeman and Ye (2023). I calculate each investor's annual support rate of management for domestic/foreign firms and benchmark it against the investor's unconditional average support rate of management for all firms each year. Specifically, the investor abnormal support rate is defined as

$$\text{Abnormal Support}_{i,t,d} = \frac{\sum_{j \in d} \sum_p \text{Vote with Management}_{i,j,p,t}}{N_{i,t,d}} - \frac{\sum_j \sum_p \text{Vote with Management}_{i,j,p,t}}{N_{i,t}}, \quad (1)$$

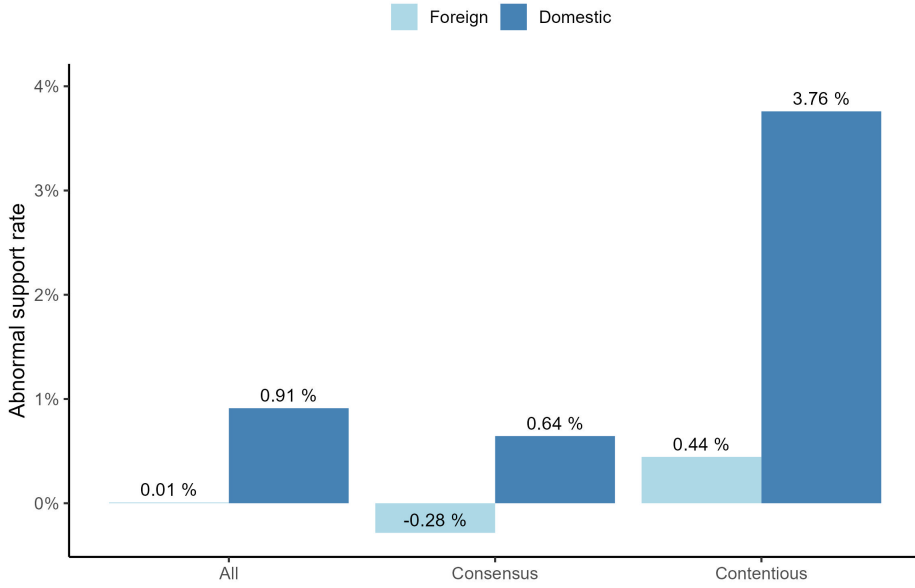
where  $i, j, p$  and  $t$  denote investor, firm, proposal, and year, respectively, while  $d$  indicates whether the investor and the firm are located in the same country.  $\text{Vote with Management}_{i,j,p,t}$  is a dummy variable set to one if investor  $i$  votes with management on proposal  $p$  of firm  $j$  in year  $t$ , and zero otherwise.  $N_{i,t,d}$  indicates the total number of votes cast by investor  $i$  on domestic firms in year  $t$ . I then compute the equal-weighted and vote-weighted abnormal support rate across all investors during the entire sample period.<sup>3</sup>

<sup>3</sup>The vote-weighted abnormal support rate is defined as  $\frac{\sum_{i,t,d} N_{i,t,d} * \text{Abnormal Support}_{i,t,d}}{N_d}$ .

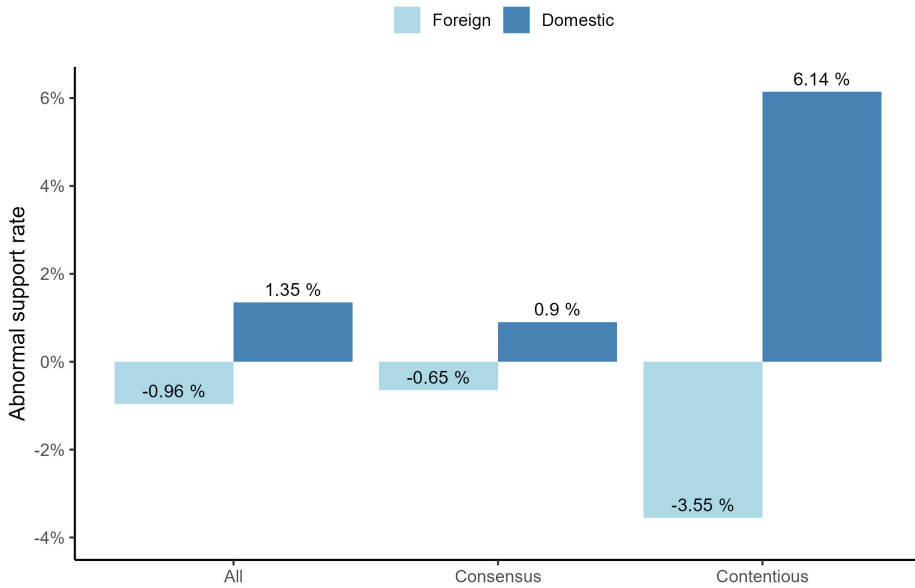


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Panel A: Equal-Weighted Abnormal Support



Panel B: Vote-Weighted Abnormal Support



**Figure 1: Investor Abnormal Support for Managers.** The figure plots the average investor abnormal support of management at domestic and foreign firms. Consensus items refer to proposals where ISS recommendation is the same as management recommendation, while contentious items refer to proposal where ISS recommendation disagrees with management recommendation. The light-coloured bar indicates abnormal support rate for foreign firms and the dark-coloured bar indicates abnormal support rate for domestic firms. Abnormal support rate is defined in Section 3.2.

Figure 1 presents the summary statistics on average investor abnormal support of management at domestic and foreign firms. Panel A reports the equal-weighted abnormal support rate at domestic and foreign firms in contentious, consensus, and all agenda items. I find that investors are by 0.91% more likely to vote with management at domestic firms, compared to their own unconditional propensity to vote with management in general, whereas the abnormal

support rate for foreign companies is essentially zero. The difference between domestic and foreign abnormal support rates is four times larger in contentious items, which is consistent with the pattern shown in Table 3. The promanagement voting gap between domestic and foreign firms is further amplified when I use vote-weighted investor abnormal support rate, as shown in Panel B. Again, these descriptive statistics point towards an extensive home bias in investor voting.

### 3.3. Empirical design

To control for unobserved heterogeneity that could drive the results in the univariate analysis, I employ a high-dimensional fixed effects model in this paper.<sup>4</sup> The research design is specified as follows:

$$\begin{aligned} \text{Vote with management}_{i,j,c,p,t} = & \alpha + \beta_1 \text{Local}_{i,j} + \beta_2 \text{ISS recommendation}_{j,p,t} \\ & + \beta_3 \text{Country weight}_{i,c,t} + \gamma_{i,t} + \lambda_{j,t} + \epsilon_{i,j,c,p,t} \end{aligned} \quad (2)$$

The dependent variable is an indicator variable that equals to one when investor  $i$  votes in line with management of company  $j$  headquartered in country  $c$  on proposal  $p$  in year  $t$ . The main independent variable is  $\text{Local}_{i,j}$ , which identifies investor  $i$  as a local investor of company  $j$ . Throughout my analysis, I use three proxies of local investors: domestic, same continent, and common language. In a recent review, Enriques and Strampelli (2023) point out three main reasons for investors' tendency to engage more actively with domestic companies: cultural estrangement, political risks, and marketing needs geared towards domestic clients and beneficiaries. These three metrics allow me to capture the aforementioned aspects in different ways.

To identify domestic investors, I create a dummy variable that equals one if the country code of the company headquarter is the same as the country code of the investor domicile, and zero otherwise. Being situated in the same country means sharing the same legal system and economic environment, which are important determinants of corporate governance (Doidge et al., 2007). Beyond country border, I also consider the effect of continental influence. Countries of the same continent tend to share similar cultural backgrounds, which could facilitate shareholder engagement. An common barrier that foreign investors face when accessing information overseas is language difference. This is particularly relevant in emerging markets where company disclosure in English is scarce. Thus, common language could be a suitable proxy for information asymmetry. Based on the CIA World Factbook<sup>5</sup>, I also create a common language variable that equals one if the country the investor is domiciled in shares a major language with the country the company is headquartered in.

The research design includes two sets of fixed effects: investor-year fixed effects ( $\gamma_{i,t}$ ) and firm-year fixed effects ( $\lambda_{j,t}$ ) and addresses two key endogeneity concerns. First, firm characteristics, such as size and profitability, may jointly affect foreign ownership and governance. Second, location is endogenous to country-level socio-economic characteristics that incentivize investors to invest in that country. I use firm-year fixed effects, which mitigate correlated omitted variable bias at the firm level by controlling for all unobserved time-varying firm characteristics that affect the votes of all shareholders. To further eliminate the influence of each proposal, I also use firm-proposal-year fixed effects in certain specifications. Furthermore, I include investor-year fixed effects which mitigate correlated omitted variable bias at the investor level by controlling for all unobserved investor characteristics that affects its voting across all firms.

Another concern relates to holding size. The preference for domestic equities in investment portfolios is endogenous to the choice of actively monitoring domestic firms, because a larger holding size entails bigger voting power and bigger influence on investment returns, which justifies devoting more resources to monitor these firms. One way of solving the problem is to control for the investor's holding size in each portfolio company directly. Data on portfolio holdings of institutional investors is usually obtained through 13F filings. However, since my sample consists of non-U.S. investors who do not file 13Fs, this approach is not viable. Instead, I compute a country weight variable, which is defined as the number of companies on which investor  $i$  has cast vote(s) in country  $c$  (where company  $j$  is headquartered) as a proportion of the total number of companies investor  $i$  has voted on in year  $t$ . Although this variable is not a perfect

<sup>4</sup>I opt for a linear probability model for two reasons. First, probit/logit models with fixed effects are known to suffer from the incidental parameters problem which leads to biased estimates of the partial effect, while the incidental parameters problem does not arise for the partial effect of interest in a linear probability model (Cameron and Trivedi, 2005). Second, I include interaction effects in several model specifications, and the linear probability model provides a straightforward interpretation of the estimated interaction effects (Greene, 2020). The model is estimated using the "fixest" package in R. For details, please refer to Bergé (2018).

<sup>5</sup>The date is available at <https://www.cia.gov/the-world-factbook/field/languages/> (accessed September 1, 2023).

proxy for holding size, but it captures to a large extent the investor's magnitude of investment and degree of active monitoring in a country.

I also control for ISS recommendations which have a decisive influence over shareholder votes (Malenko and Shen, 2016).

## 4. Is there a home bias in shareholder voting?

### 4.1. Main results

In this section, I report the baseline results for whether local investors are more likely to vote with management in the regression framework described above. Table 4 shows the results of estimating the linear probability model specified in Equation (2). In Column (1), I find that an investor is 4.6% more likely to vote with management at domestic firms in comparison to foreign firms, after controlling for various time-varying firm characteristics, investor-characteristics and proposal characteristics.<sup>6</sup> The estimated effect is significant both statistically and economically, and it corresponds to 5.2% of the unconditional average propensity to vote with management of 88.3% across all proposals. In Column (2) and (3), I replace *Domestic* with *Same Continent* and *Common Language*, two proxies for geographic and cultural proximity. The results are similar, with a slightly smaller effect of *Same Continent* (4.1%) and a slightly larger effect of *Common Language* (4.9%), relative to the effect of *Domestic*. These results are highly consistent with the result in the univariate voting statistics (Table 3). I include firm  $\times$  proposal  $\times$  year fixed effects in Column (4)-(6) to control for unobserved proposal heterogeneity such as the quality of the proposal. Thus, identification arises from variation across investors of different degrees of geographic proximity in a given proposal. The results are unchanged, suggesting that proposal fixed effects do not explain much of the variation in promanagement voting in addition to firm  $\times$  year fixed effects.<sup>7</sup>

Section 3.2 indicates that the discrepancy of promanagement voting rate between domestic firms and foreign firms is larger among contentious proposals. Thus, I run the regression for contentious votes only. Column (7) shows that the size of home bias in contentious votes is three times larger than the magnitude of home bias in all votes. As the unconditional promanagement rate for contentious proposals is 28.3%, the estimated marginal effect represents a 45% increase in the likelihood of voting with management. The magnitude of this effect is largely comparable to the educational network effect on fund managers' voting on shareholder proposals related to executive compensation (Butler and Gurun, 2012). This result implies that when there is disagreement between ISS and management, investors are more likely to lean towards management at domestic firms than at foreign firms. Given ISS's "certification effect" (Li, 2018), the deviation from ISS recommendations further attests the considerable influence of home bias.

The coefficients on *ISS recommendation* and *Country weight* are positive and highly significant as expected, except for Column (7) possibly due to a smaller sample with less variation.

### 4.2. E&S proposals

There is a special type of heterogeneity that could be potentially masked in the baseline results: the distinction between governance proposals and E&S proposals. While the majority of proposals are related to corporate governance issues, E&S proposals are garnering more and more attention in recent years (Michaely, Ordenez-Calafi and Rubio, 2023; He, Kahraman and Lowry, 2023). E&S issues deserve special attention because of their unique characteristics. One trait is that E&S proposals often reflect a desire to reduce negative externalities rather than to merely increase shareholder value. Another one is that E&S proposals are characterised by higher level of contentiousness and almost always fail, in comparison to governance proposals.<sup>8</sup>

Considering that proxy voting is one of the most important avenues for investors to express their ESG preferences, I investigate whether the voting home bias is also present for E&S proposals. Groen-Xu and Zeume (2021) find that investors care more about E&S performance in their home country, and if it is true, it is expected that home bias in shareholder voting should be intensified when it comes to E&S proposals. That is to say, there should be more dissent voting on E&S proposals at domestic firms. On the other hand, Boermans and Galema (2023) show that investors actually apply higher E&S standards to foreign companies in their holdings, which suggests more dissent voting abroad

<sup>6</sup>The results are very similar when standard errors are clustered by fund $\times$ year.

<sup>7</sup>I estimate the following equation:  $\text{Vote with management}_{i,j,c,p,t} = \alpha + \beta_1 \text{Local}_{i,j} + \beta_2 \text{Country weight}_{i,c,t} + \gamma_{i,t} + \lambda_{j,p,t} + \epsilon_{i,j,c,p,t}$ . Note that ISS recommendation is subsumed by the proposal fixed effects and thus not included here.

<sup>8</sup>According to my data sample, ISS recommendation and management recommendation differ on approximately 30% of all E&S proposals, while the percentage of disagreement among governance proposals lies below 10%. In general, ISS tends to be more supportive of E&S proposals than management does.

**Table 4**  
Local investors and voting with management

Vote with management	All votes						Contentious votes		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Domestic	0.046*** (0.001)			0.046*** (0.001)			0.127*** (0.002)		
Same continent		0.041*** (0.001)			0.040*** (0.001)			0.053*** (0.001)	
Common language			0.049*** (0.001)			0.049*** (0.001)			0.066*** (0.002)
ISS recommendation	0.649*** (0.001)	0.649*** (0.001)	0.649*** (0.001)						
Country weight	0.018*** (0.002)	0.031*** (0.002)	0.067*** (0.001)	0.017*** (0.002)	0.031*** (0.002)	0.066*** (0.001)	-0.093*** (0.005)	0.013*** (0.005)	0.054*** (0.005)
Investor × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	No	No	No	No	No	No
Firm × Proposal × Year FE	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Observations	54,498,614	54,498,614	54,498,614	54,498,614	54,498,614	54,498,614	4,458,186	4,458,186	4,458,186
Adjusted R <sup>2</sup>	0.419	0.419	0.419	0.461	0.461	0.461	0.463	0.461	0.460

Notes: The table presents the relation between the probability of voting with management and investors' proximity to firms. The unit of observation is  $i, j, c, p, t$  representing investor  $i$ , firm  $j$  in country  $c$ , and proposal  $p$  in year  $t$ . *Vote with management* is a dummy variable that equals to one when investor votes with management on a proposal, and zero when investor votes against management. *Domestic* is a dummy variable that equals one if the investor and the company are domiciled in the same country, and zero otherwise. *Same Continent* is a dummy variable that equals one if the investor and the company are located in the same continent, and zero otherwise. *Common Language* is a dummy variable that equals one if the country the investor is domiciled in shares a major language with the country the company is headquartered in. *ISS recommendation* is an indicator for whether ISS recommends voting for management. *Country weight* is the number of companies on which investor  $i$  has cast vote(s) in country  $c$  (where company  $j$  is headquartered) as a proportion of the total number of companies investor  $i$  has voted on in year  $t$ . Standard errors are clustered on the fund × firm level. \*\*\*, \*\*, and \* denotes significance at 1%, 5%, and 10% levels, respectively.

than at home. These two opposing views leads two contradictory hypotheses which are equally possible ex ante. To test which of the two hypotheses is supported by my data, I use the following Difference-in-Difference (DiD) specification:

$$\begin{aligned}
 \text{Vote with management}_{i,j,p,t} = & \alpha + \beta_1 \text{Local}_{i,j} + \beta_2 \text{Local}_{i,j} \times \text{E\&S Proposal}_{j,p,t} \\
 & + \beta_3 \text{E\&S Proposal}_{j,p,t} + \beta_4 \text{ISS recommendation}_{j,p,t} \\
 & + \gamma_{i,j,t} + \epsilon_{i,j,p,t}
 \end{aligned} \tag{3}$$

In this DiD design, the additional dimension of proposal category allows me to control for more unobserved heterogeneity by including investor × firm × year effects. More importantly, this research design further alleviates concerns about endogeneity related to holding size. Therefore, the estimate of  $\beta_3$  provides us with the differential effect of home bias between E&S proposals and governance proposals for a given investor × firm pair in a given year.

Table 5 presents the regression results. The coefficient on the interaction term,  $\beta_2$ , is positive and significant at the 1% level across all specifications, and robust to the inclusion of proposal fixed effects. The estimates in Column (1) and (4) suggest that an investor voting on a domestic firm becomes approximately 8 percentage points more likely to side with management when the proposal is related to environmental and social issues, relative to governance proposals. These results imply that investors hold double standards on corporations when it comes to environmental and social issues, depending on their geographic distance with the firm. The negative coefficient on *E&S* is consistent with the high level of contentiousness associated with E&S proposals. The coefficients on measures of geographic proximity are dropped due to collinearity with *firm × investor × year* fixed effects and hence are not reported.

**Table 5**  
Home bias for E&S proposals

Vote with management	All votes					
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic × E&S	0.078*** (0.002)			0.083*** (0.002)		
Same continent × E&S		0.074*** (0.002)			0.078*** (0.002)	
Common language × E&S			0.051*** (0.003)			0.085*** (0.003)
E&S	-0.015*** (0.001)	-0.020*** (0.001)	-0.015*** (0.002)			
ISS recommendation	0.651*** (0.001)	0.651*** (0.001)	0.650*** (0.001)			
Firm × Investor × Year FE	No	Yes	Yes	Yes	Yes	Yes
Firm × Proposal × Year FE	No	No	No	Yes	Yes	Yes
Observations	53,894,826	53,894,826	53,894,826	53,894,826	53,894,826	53,894,826
Adjusted R <sup>2</sup>	0.620	0.620	0.620	0.660	0.660	0.660

Notes: The table presents cross-sectional analyses on the relation between the probability of voting with management and investors' proximity to firms. The unit of observation is  $i, j, p, t$  representing investor  $i$ , firm  $j$  and proposal  $p$  in year  $t$ . *Vote with management* is a dummy variable that equals to one when investor votes with management on a proposal, and zero when investor votes against management. *Domestic* is a dummy variable that equals one if the investor and the company are domiciled in the same country, and zero otherwise. *Same Continent* is a dummy variable that equals one if the investor and the company are located in the same continent, and zero otherwise. *Common Language* is a dummy variable that equals one if the country the investor is domiciled in shares a major language with the country the company is headquartered in. *E&S* identifies if the proposal is related to environmental and social issues. *ISS recommendation* is an indicator for whether ISS recommends voting for management. Standard errors are clustered on the fund × firm level. \*\*\*, \*\*, and \* denotes significance at 1%, 5%, and 10% levels, respectively.

## 5. What are the potential channels of home bias in shareholder voting?

### 5.1. Information advantage

The literature on geographic proximity concludes that at least a part of home bias can be explained information asymmetry. In particular, Bauer, Clark and Viehs (2014) document a home bias in shareholder engagement and attribute it to information advantage of the regulatory environment in the home market. Given the large geographic heterogeneity in corporate governance standards and stewardship codes, it can be reasonably expected that investors are more familiar with the voting process in their home country. In this section, I investigate whether information advantage is a potential channel that drives promanagement voting at domestic firms by examining cross-sectional variation in home bias.

I hypothesize that if local investors vote with management because they possess better information about domestic firms, this information advantage should be more pronounced when the firm/investor is located in a country with lower transparency. To test this hypothesis, I use three proxies for information asymmetry at the country level. First, I identify whether the company is located in an English speaking country. Non-English speaking countries are in general more opaque since materials in English are less commonly available. Second, I obtain the financial disclosure index from Jin and Myers (2006). It is based on results from surveys about the level and effectiveness of financial disclosure in different countries in the Global Competitiveness Reports. The responses range from one to seven, with higher values representing higher level of transparency. Third, I rely on the index of governance transparency in Bushman, Piotroski and Smith (2004), which measures the prevalence of disclosures related to corporate governance. Each country is rated along several dimensions of corporate governance, including board structure and director remuneration. *Governance* is the average percentile rank within the sample of countries across all categories, so it ranges from 0 to 100, with 100 representing the highest transparency level.

I interact *Domestic* with each of these three transparency variables in Equation (2).<sup>9</sup> Based on my hypothesis, I expect the coefficients on all the interaction terms to be negative, which indicates an increase in promanagement voting

<sup>9</sup>I skip the interaction with the *Same Continent* and *Common Language* variables. The transparency measures are constructed on the country level, so a country-level indicator for local investor is more appropriate here.

for domestic firms as transparency level deteriorates in the home country (i.e., as information asymmetry becomes larger).

**Table 6**  
Information environment and voting with management

Vote with management	All votes			
	(1)	(2)	(3)	(4)
Domestic	0.063*** (0.002)	0.452*** (0.027)	0.066*** (0.005)	0.045*** (0.001)
Domestic × English	-0.019*** (0.002)			
Domestic × Disclosure		-0.070*** (0.004)		
Domestic × Governance			0.000*** (0.000)	
Domestic × Early Cutoff				0.047*** (0.004)
Country weight	0.018*** (0.002)	-0.021*** (0.004)	0.017*** (0.002)	0.019*** (0.002)
Investor × Year FE	Yes	Yes	Yes	Yes
Firm × Proposal × Year FE	Yes	Yes	Yes	Yes
Observations	54,498,614	29,523,624	50,811,228	54,498,614
Adjusted $R^2$	0.461	0.471	0.450	0.461

Notes: The table presents cross-sectional analyses on the relation between the probability of voting with management and investors' proximity to firms. The unit of observation is  $i, j, p, t$  representing investor  $i$ , firm  $j$  and proposal  $p$  in year  $t$ . *Vote with management* is a dummy variable that equals to one when investor votes with management on a proposal, and zero when investor votes against management. *Domestic* is a dummy variable that equals one if the investor and the company are domiciled in the same country, and zero otherwise. *English* identifies whether the firm is located in an English-speaking country. *Disclosure* is the financial disclosure index from Jin and Myers (2006), ranging from one to seven (the larger the value, the higher is the transparency level). *Governance* is the governance transparency index in Bushman et al. (2004), ranging from 0 to 100 (the larger the value, the higher is the transparency level). *Early Cutoff* identifies whether the firm is located in a country with a cut-off date 6 days or more ahead of the shareholder meeting. *Country weight* is the number of companies on which investor  $i$  has cast vote(s) in country  $c$  (where company  $j$  is headquartered) as a proportion of the total number of companies investor  $i$  has voted on in year  $t$ . Sample size change due to missing values of *Disclosure* and *Governance*. Standard errors are clustered on the fund × firm level. \*\*\*, \*\*, and \* denotes significance at 1%, 5%, and 10% levels, respectively.

Table 6 reports the results. In Column 1, the coefficient on the interaction *Domestic* × *English* is negative and significant at the 1% level, while the coefficient on *Domestic* remains positive and statistically significant. This result indicates that investors are more likely to vote with management at domestic firms, and the probability of voting with management is 1.9% higher if the investor/company is located in a non-English speaking country. Similarly, Column (2) shows that the home bias is stronger in countries with fewer financial disclosures. The effect of governance transparency is minimal as reported in Column (3).

In addition, I use another measure of information environment strictly related to proxy voting. In the proxy voting process, all markets stipulate a deadline for shareholders to register their votes ahead of the shareholder meeting (“cutoff date”), and this cutoff date varies across countries (NBIM, 2020). As noted in many investors' voting policies, certain markets operate with earlier cutoff dates that prevent investors to incorporate information that becomes available closer to the meeting date into their voting decisions, and this is identified by investors as one of the major barriers of voting abroad according to my analysis of investors' voting policies in Section 5.3. In a world with information asymmetry, this obstacle is likely to be higher for foreign investors as domestic investors have access to private information prior to the cutoff date. I encode a dummy variable for countries with a cut-off date 6 days or more ahead of the shareholder meeting and interact it with *Domestic*.<sup>10</sup> Column (4) of Table 6 reports the regression results. The coefficient on the interaction term is positive and significant at the 1% level. Note that the size of the estimated coefficient on *Domestic* is almost the same as in Column (1) of Table 4, and on top of that, early cutoff date further increases the probability

<sup>10</sup>The cutoff date by country is obtained from NBIM (2020).



of voting with management at domestic firms by 4.7%. The economic magnitude of the cutoff rule is much larger than *English*, presumably because it is more directly related to the information barrier of casting votes.

## 5.2. Business ties

Business ties and board connections between investors and firms affect voting behavior (Davis and Kim, 2007; Cvijanovic et al., 2016; Calluzzo and Kedia, 2019; Duan et al., 2021). These connections are more common when the investor and the firm are located in the same country, which could potentially explain the home bias in voting found in Section 4. Also, the influence of business ties on promanagement voting is likely to be stronger in environments of greater agency conflicts or weaker governance controls, since legal and regulatory environments are important determinants of how investors exercise their shareholder rights (Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998; Kim et al., 2016; Iliev et al., 2015). Therefore, I hypothesize that if local investors vote with management due to business ties, this behavior should be more visible when the firm/investor is located in a country with worse outside investor protection.

To test this hypothesis, I use three proxies for outside investor protection at the country level. The first is the anti-self-dealing index from Djankov, La Porta, de Silanes and Shleifer (2008), a measure of legal protection of minority shareholders against expropriation by corporate insiders. The second is the revised anti-director-rights index also from Djankov et al. (2008). The index measures how strongly the legal system favors minority shareholders against managers or dominant shareholders in the corporate decision-making process, including the voting process. The third one is the corruption index from Porta, de Silanes, Shleifer and Vishny (1999), which captures the overall level of corruption in a government. It varies on a scale from zero to ten, with lower scores representing higher levels of corruption.

**Table 7**

Outside investor protection and voting with management

Vote with management	All votes		
	(1)	(2)	(3)
Domestic	0.109*** (0.003)	0.172*** (0.003)	0.389*** (0.010)
Domestic × Anti-self-dealing	-0.093*** (0.004)		
Domestic × Anti-director-rights		-0.036*** (0.001)	
Domestic × Corruption			-0.038*** (0.001)
Country weight	0.018*** (0.002)	0.014*** (0.002)	0.010*** (0.002)
Investor × Year FE	Yes	Yes	Yes
Firm × Proposal × Year FE	Yes	Yes	Yes
Observations	54,283,064	54,283,064	54,162,169
Adjusted $R^2$	0.461	0.461	0.461

Notes: The table presents cross-sectional analyses on the relation between the probability of voting with management and investors' proximity to firms. The unit of observation is  $i, j, p, t$  representing investor  $i$ , firm  $j$  and proposal  $p$  in year  $t$ . *Vote with management* is a dummy variable that equals to one when investor votes with management on a proposal, and zero when investor votes against management. *Domestic* is a dummy variable that equals one if the investor and the company are domiciled in the same country, and zero otherwise. *Anti-self-dealing* is a measure of legal protection of minority shareholders against expropriation by corporate insiders in Djankov et al. (2008), ranging from zero to one (the larger the value, the better is the protection of outside investors). *Anti-director-rights* is the revised anti-director-rights index in Djankov et al. (2008) ranging from zero to six (the larger the value, the better is the protection of minority shareholders). *Corruption* is the corruption index in Porta et al. (1999) ranging from zero to ten (the larger the value, the lower is the corruption level). *Country weight* is the number of companies on which investor  $i$  has cast vote(s) in country  $c$  (where company  $j$  is headquartered) as a proportion of the total number of companies investor  $i$  has voted on in year  $t$ . Sample size change due to missing values of *Anti-self-dealing*, *Anti-director-rights* and *Corruption*. Standard errors are clustered on the fund × firm level. \*\*\*, \*\*, and \* denotes significance at 1%, 5%, and 10% levels, respectively.

Again, I add interaction terms for each proxy in the main specification. My hypothesis predicts negative coefficients on the interaction terms, which indicates an increase in promanagement voting for domestic firms given a decrease in



outside investor protection. Table 7 shows that local investors are more likely to side with firm management in countries that offers less protection to outside investors (and thus favors business ties), and this finding is robust to different proxies of outside investor protection.

I also examine the channel of business ties from another angle. Cvijanovic et al. (2016) find that the association between business ties on proxy voting is strongest for contested proposals (i.e., proposals that pass or fail by small margins), because firm managers are most likely to exert influence when they see a bigger chance of changing the voting outcome of these contested proposals, compared to other proposals that require significantly more votes to pass. If the home bias is indeed driven by business ties, it is expected that firm managers would make more attempts to solicit votes from local shareholders when the proposal is contested. Specifically, I create a dummy variable for contested proposal that equals one if the proposal passes or fails by less than 10%, and zero otherwise.<sup>11</sup> I use the DiD design in Equation 3, but substitute the *E&S* variable with the *Contested* variable.

**Table 8**  
Home bias for contested proposals

Vote with management	All votes					
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic × Contested	0.061*** (0.002)			0.065*** (0.002)		
Same continent × Contested		0.053*** (0.002)			0.051*** (0.002)	
Common language × Contested			0.068*** (0.002)			0.073*** (0.003)
Contested	-0.111*** (0.001)	-0.111*** (0.002)	-0.128*** (0.002)	-0.125*** (0.007)	-0.123*** (0.007)	-0.148*** (0.008)
ISS recommendation	0.617*** (0.001)	0.617*** (0.001)	0.617*** (0.001)			
Firm × Investor × Year FE		Yes	Yes	Yes	Yes	Yes
Firm × Proposal × Year FE	No	Yes	No	Yes	No	Yes
Observations	42,168,511	42,168,511	42,168,511	42,168,511	42,168,511	42,168,511
Adjusted R <sup>2</sup>	0.593	0.593	0.593	0.633	0.633	0.633

Notes: The table presents cross-sectional analyses on the relation between the probability of voting with management and investors' proximity to firms. The unit of observation is  $i, j, p, t$  representing investor  $i$ , firm  $j$  and proposal  $p$  in year  $t$ . *Vote with management* is a dummy variable that equals to one when investor votes with management on a proposal, and zero when investor votes against management. *Domestic* is a dummy variable that equals one if the investor and the company are domiciled in the same country, and zero otherwise. *Same Continent* is a dummy variable that equals one if the investor and the company are located in the same continent, and zero otherwise. *Common Language* is a dummy variable that equals one if the country the investor is domiciled in shares a major language with the country the company is headquartered in. *Contested* is dummy variable that equals one if support rate for the proposal is between 40% and 60%, and zero otherwise. *ISS recommendation* is an indicator for whether ISS recommends voting for management. Standard errors are clustered on the fund × firm level. \*\*\*, \*\*, and \* denotes significance at 1%, 5%, and 10% levels, respectively.

Column (1) of Table 8 shows that while contested proposals on average receive lower support, a shift from foreign firm to domestic firm leads to an increase in promanagement voting of 6.1% for contested proposals, relative to non-contested proposals. The estimated coefficient on the interaction term is positive and significant at the 1% level across all specifications and for other measure of geographic and cultural proximity, providing further evidence in favor of the business ties explanation.

### 5.3. Additional analysis: voting policy

My results in Section 5.1 and Section 5.2 suggest that the existence of home bias in shareholder voting is consistent with both the information advantage and business ties channels. In an attempt to further disentangle these two channels, I conduct a qualitative analysis of the voting policies and guidelines disclosed by the investors in my sample. The

<sup>11</sup>The results are similar when I use a 20% threshold for contested proposals.

voting policies and guidelines are collected from financial institutions' websites and from ADV and SAI filings with the SEC.<sup>12</sup> In total, I obtain 1209 voting policies out of 1336 investors in my sample.<sup>13</sup>

I primarily examine the geographic aspect in the voting policies. The majority of investors acknowledge the heterogeneity of corporate governance standards and voting market mechanics by country, and therefore take into account these geographic differences in their voting policies. I inspect whether the investor explicitly distinguishes between domestic holdings and international holdings in the guideline, how the investor collects and processes information related to proxy voting for their domestic holdings and international holdings respectively, and whether the investor uses the same proxy advisor for their domestic holdings and international holdings. The emphasis is on the proxy voting process and procedure rather than the investor's position on each proxy item. Based on these criteria, I broadly classify investors' approaches to voting a global portfolio into six categories.

**Table 9**  
Classification of investors: voting policy

Category	Description	No. of investors
A	Publish separate voting policies by country or region	39
B	Publish a general voting policy with regional deviation	66
C	Use a different local proxy advisor for domestic securities	24
D	Conduct in-house research on domestic holdings and outsource foreign voting to external proxy advisors	15
E	Delegate the voting authorities of domestic holdings and foreign holdings to different teams	6
F	No explicit distinction of domestic versus foreign holdings	1059

In category A, an investor either develops its own voting policies that are adapted to specific market conditions or relies on standard regional voting policies provided by proxy advisors.<sup>14</sup> Large investors such as the Big Three (BlackRock, State Street, and Vanguard) tend to adopt this approach. Also, Japanese investors typically publish two voting policies, one for domestic holdings, the other for foreign holdings. The voting policy for domestic holdings, based on local stewardship code and best practices in corporate governance, is usually more detailed. In total, 39 investors in my sample publish separate voting policies by country/region. In category B, an investor implements a general voting policy but allows for regional deviation. These voting policies generally apply a universal voting guideline, but permit voting decisions on a case-by-case basis that accounts for local regulations and best practices. Note that here I only include investors that explicitly disclose their consideration of relevant laws, regulations and practices in foreign markets, and 66 investors in my sample fall under this category. In category C, an investor contracts a third-party proxy advisor for its international holdings (typically ISS or Glass Lewis), and in addition retains a different proxy advisor with local expertise for its domestic holdings. All of the 24 investors that follow this approach are domiciled outside the U.S. In category D, an investor has its own team to conduct proxy research on domestic holdings, but outsources proxy research on foreign holdings to external proxy advisors. This arrangement means that these investors are likely to devote more resources to monitoring domestic holdings, and therefore the votes cast at domestic firms are based on better information. Both European and North American investors use this approach. In category E, an investor delegates the voting authority of domestic holdings and foreign holdings to different teams. A few asset owners choose to delegate voting rights at foreign companies to the appointed international investment managers or representatives. Category F acts as a miscellaneous category which encompasses investors that do not mention explicitly how they address geographic differences in the voting process. This could be because the investor

<sup>12</sup>Under Rule 206(4)–6, the SEC requires investment advisers to describe their proxy voting policies and procedures to clients. Such information is disclosed in the SAIs that supplement funds' prospectus (Couvert, 2020), as well as in investment advisors' ADV filings (See <https://www.sec.gov/divisions/investment/iard> and <https://adviserinfo.sec.gov/> for details). However, the disclosure can be a short summary of their actual voting policies under the condition that further details must be provided upon client request (See <https://www.federalregister.gov/documents/2003/02/07/03-2952/proxy-voting-by-investment-advisers>). I base my analysis on the short summary in absence of a detailed voting policy.

<sup>13</sup>The lack of available voting policy is primarily due to three reasons: 1) dissolution of the financial institution; 2) exempt reporting advisers; and 3) no mandatory requirement for voting policy in certain jurisdictions.

<sup>14</sup>Both ISS and Glass Lewis publish their voting policies for each region on their websites (<https://www.issgovernance.com/policy-gateway/voting-policies/> and <https://www.glasslewis.com/voting-policies-current/>).

implicitly follows the region-specific policy provided by proxy advisors or because it only votes domestic securities. In absence of disclosure, it is beyond the scope of this paper to further distinguish between this group of investors.

A common theme emerging from the voting policies is that investors often refrain from voting foreign securities, especially when the holding stake is small, due to high costs and legal restrictions. These challenges include but are not limited to share blocking, power of attorney requirement, insufficient time for proxy research (e.g., early cut-off date), mandatory physical attendance at annual general meetings, and language barrier. These factors again highlight the information disadvantage of voting abroad.

To sum up, investors generally adopt a more hands-on approach towards voting domestic holdings through higher voting turnout, more active engagement, in-depth analysis, and in-house research on domestic firms. This behavior is consistent with the information specialization theory (Van Nieuwerburgh and Veldkamp, 2009).

## 6. Conclusion

The globalization of portfolio management gives rise to the need of exercising shareholder rights internationally. However, the ability of investors to cast informed votes is impeded by inconsistent corporate governance standards and proxy voting processes across markets. These geographic disparities results in different voting behaviors at domestic and foreign firms. In this paper, I examine whether the probability of voting with management is higher when the investor and the company are located in the same country or continent, and when they share a common language. I further propose two potential channels to explain this phenomenon.

Using a global data set from 2012 to 2022, I provide robust evidence that there is a significant home bias in shareholder voting. The results are consistent with two possible explanations: information advantage of local investors and business ties between investors and domestic firms. A systematic review of investors' voting policies suggests that investors actively seek out more information about domestic firms during the voting process in order to gain an information advantage in their home countries. However, an important caveat of this study is that I cannot precisely quantify the effect of each channel, nor can I rule out other alternative explanations of the home bias, even though the research design and robustness checks mitigate concerns about omitted variable bias and reverse causality.

Overall, this study sheds light on an important type of market inefficiency in shareholder voting. Because institutional investors possess an inherent information advantage when voting in their home countries, regulators need to level the playing field of information acquisition in proxy voting for foreign investors who constitute an essential part of the global governance mechanism. In view of the large geographic heterogeneity, more cross-country studies on shareholder voting are warranted.

## A. Appendix

### A.1. Robustness test: Non-U.S. investors

As shown in Table 1, U.S. investors comprise nearly 70% of total investors in my sample. To test whether the results in Table 4 are driven by U.S. investors rather than being a global phenomenon, I run the regression for non-U.S. investors only. This also rules out the Big Three which have overshadowing market power in the asset management industry and distinctively different incentives to engage and vote (Brav, Malenko and Malenko, 2022). Table 10 presents the estimated effect of geographic proximity on proxy voting of non-U.S. investors. The effect of geographic proximity remains statistically significant at the 1% level, albeit at a smaller scale compared to Table 4.

**Table 10**  
Non-U.S. investors

Vote with management	All votes cast by non-U.S. investors					
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic	0.012*** (0.001)			0.012*** (0.001)		
Same continent		0.010*** (0.001)			0.010*** (0.001)	
Common language			0.027*** (0.001)			0.026*** (0.001)
ISS recommendation	0.654*** (0.001)	0.654*** (0.001)	0.654*** (0.001)			
Country weight	0.058*** (0.003)	0.054*** (0.003)	0.054*** (0.002)	0.055*** (0.003)	0.053*** (0.003)	0.052*** (0.003)
Investor × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	No	No	No
Firm × Proposal × Year FE	No	No	No	Yes	Yes	Yes
Observations	18,174,912	18,174,912	18,174,912	18,174,912	18,174,912	18,174,912
Adjusted $R^2$	0.367	0.367	0.367	0.456	0.456	0.456

Notes: The table presents the relation between the probability of voting with management and investors' proximity to firms, using a subsample of non-U.S. investors. The unit of observation is  $i, j, c, p, t$  representing investor  $i$ , firm  $j$  in country  $c$ , and proposal  $p$  in year  $t$ . *Vote with management* is a dummy variable that equals to one when investor votes with management on a proposal, and zero when investor votes against management. *Domestic* is a dummy variable that equals one if the investor and the company are domiciled in the same country, and zero otherwise. *Same Continent* is a dummy variable that equals one if the investor and the company are located in the same continent, and zero otherwise. *Common Language* is a dummy variable that equals one if the country the investor is domiciled in shares a major language with the country the company is headquartered in. *ISS recommendation* is an indicator for whether ISS recommends voting for management. *Country weight* is the number of companies on which investor  $i$  has cast vote(s) in country  $c$  (where company  $j$  is headquartered) as a proportion of the total number of companies investor  $i$  has voted on in year  $t$ . Standard errors are clustered on the fund × firm level. \*\*\*, \*\*, and \* denotes significance at 1%, 5%, and 10% levels, respectively.

### A.2. Robustness test: Investors with domestic and foreign holdings

Some investors only vote at domestic firms, either because their investment portfolio only consists of domestic firms or because they decide to refrain from voting at foreign firms. It is not possible to compare how these investors' voting behavior may differ at home and abroad. Hence, I restrict the sample to investors that have cast votes at both domestic firms and foreign firms during the sample period. This restriction leaves 1256 investors in the sample. Table 11 presents the results for investors that vote internationally, and it is very similar to Table 4.

**Table 11**  
Investors with international voting

Vote with management	All votes cast by investors with international voting					
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic	0.046*** (0.001)			0.046*** (0.001)		
Same continent		0.041*** (0.001)			0.040*** (0.001)	
Common language			0.049*** (0.001)			0.049*** (0.001)
ISS recommendation	0.652*** (0.001)	0.652*** (0.001)	0.652*** (0.001)			
Country weight	0.018*** (0.002)	0.031*** (0.002)	0.067*** (0.001)	0.017*** (0.002)	0.031*** (0.002)	0.067*** (0.001)
Investor × Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	No	No	No
Firm × Proposal × Year FE	No	No	No	Yes	Yes	Yes
Observations	53,807,128	53,807,128	53,807,128	53,807,128	53,807,128	53,807,128
Adjusted $R^2$	0.421	0.422	0.421	0.463	0.463	0.463

Notes: The table presents the relation between the probability of voting with management and investors' proximity to firms, excluding investors that only vote domestically. The unit of observation is  $i, j, c, p, t$  representing investor  $i$ , firm  $j$  in country  $c$ , and proposal  $p$  in year  $t$ . *Vote with management* is a dummy variable that equals to one when investor votes with management on a proposal, and zero when investor votes against management. *Domestic* is a dummy variable that equals one if the investor and the company are domiciled in the same country, and zero otherwise. *Same Continent* is a dummy variable that equals one if the investor and the company are located in the same continent, and zero otherwise. *Common Language* is a dummy variable that equals one if the country the investor is domiciled in shares a major language with the country the company is headquartered in. *ISS recommendation* is an indicator for whether ISS recommends voting for management. *Country weight* is the number of companies on which investor  $i$  has cast vote(s) in country  $c$  (where company  $j$  is headquartered) as a proportion of the total number of companies investor  $i$  has voted on in year  $t$ . Standard errors are clustered on the fund × firm level. \*\*\*, \*\*, and \* denotes significance at 1%, 5%, and 10% levels, respectively.

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