

Political Relations and US Institutional Ownership

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Abstract

This study looks into how political proximity affects US institutional ownership in ADR firms. I find strong empirical evidence that when bilateral political relation between a country and US is bad, the level of US institutional ownership and the number of institutional investors are low for ADR firms from that country. This paper also discusses a possible channel through which political proximity may affect US institutional investors - country's popularity among American. Consistent with previous literatures, I find that US institutional investors have positive impact on firm value. Further, I also find that firms with large US institutional ownership are less likely to face class action lawsuits and disseminate more voluntary disclosure news – press release. I conclude the paper with results showing that if the country or the country's region is involved in a crisis or crises, US institutional investors refrain from putting money into ADR firms from those countries or regions.

JEL Classification: G15; G24; G32

Keywords: Foreign Institutional Ownership; Political Proximity

Section1: Introduction

With globalisation, foreign capital has become an important source of finance in many capital markets and foreign investor have started to allocated more of their money abroad (Leuz et al., 2009 and Bekaert et al., 2002, Khorana et al., 2005). Role of foreign institutional investors has been studied by number of previous literatures. Gillan and Starks (2003) highlights the special role that institutional investors, particularly foreign institutional investors, play in prompting change in corporate governance practices worldwide. Giannetti and Laven (2009) find evidence from Sweden that corporate ownership by domestic pension funds affiliated with controlling shareholder does not enhance firm valuation but increase the control premium. Ferreira and Matos (2008) find that foreign institutional ownership is positively associated with firm value and performance outside of the U.S. Aggarwal, Ferreira and Matos (2011) further find evidence that firm-level governance is positively associated with international institutional investment. Then what influences those foreign institutional investors to put money into firms outside of their countries?

So far, the existing literatures consider how number of country-level aspect where institutions invest in, affect the institutional ownership level. Aggarwal et al. (2005) show that US funds targeting emerging markets invest more in large visible firms with more transparent accounting policies. Li et al. (2006) find a positive association between the degree of enforcement of shareholder rights and foreign institutional investment. Luez et al. (2009) analyse the foreign holdings of US investors and document that the typical US investor invests less in countries with weak legal institutions and poor information frame works. Ferreira and Matos (2008) find that foreign institutional investors invest more in to countries with strong governance systems while Chan et al. (2005) report that high levels of foreign institutional investment are expected in countries with low expropriation risk. As well as country-level aspect where institutions invest in, some literatures look into the country-level

aspect where institutional investors are from. Forbes (2010) concludes that foreign investors hold a greater amount of their wealth in United States if they have a less developed financial market at home. Abdioglu, Khurshed and Stahopoulos (2013) show institutions from similar governance setups to US invest more into US market.

Apart from how corporate governance environment affect institutional ownership, based on familiarity argument (Chan et al., 2005), institutional investors prefer the familiar to the unfamiliar, since the former allows them to reduce the costs associated with investment uncertainty and 'prudent man rule' mandates. However, there is no prior research on how dissimilarity in political influence institutional investors. This paper focuses on how the political misalignment affect institutional ownership level. Number of previous studies find the negative link between bad political relation and economic flow (Gupta et al. (2007); Dajud (2013)). Gupta et al. (2007) also find that bilateral portfolio and direct investment flows between the United States and other countries decrease significantly if relations between the foreign and U.S. government deteriorate. In this paper, I hypothesise that bad bilateral political relation has negative impact on US institutional ownership inside ADR firms.

Following previous literatures (Dajud (2013); Gupta and Xu (2007)), I construct a measure of Political Proximity - bilateral political relations - based on voting data from the United Nations General Assembly collected from U.S. Department of State. I define my political proximity variable $VoteDisagree_{US}$ as the number of votes cast by a country at the United Nations that are not identical to the US vote scaled by the total number of votes. Also I collect another political proximity variable - $VoteDiverge_{US}$ - which measures the UN vote dissimilarity (-1 of correlation - s_{2un}) from Erick Voeten Dataverse¹. Voeten (2009) data captures UN General Assembly voting coincidence between the US and its trading partner,

¹ <https://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/12379>

and aims to capture the degree of political alignment between the two. It is available up to year 2012.

Some previous literatures in politics mention that the United Nation gives no perfect image of broader international politics and UN votes are often considered fairly irrelevant, from the point of view of international politic (Russett (1966); Alesina and Weder (2002)). However, UNGA is the only international arena where we can observe its 150-plus members vote on a variety issues relating to worldwide concern (Russett (1966)) and Voeten (2009) and there are empirical evidences showing that patterns of UN votes are highly correlated with alternative measure of political alignment such as alliances and similarity of interest (Alesina and Weder (2002)). Alam (2012) find such voting patterns across a range of issues can be a useful gauge of the general political orientations of the UN member states, and observe voting alignments over time can help pinpoint changes in the political orientations. I also agree that such characteristics of the UNGA voting system make these votes a good candidate for depicting political alignment or misalignment for the purposes of this paper.

Using a unique ownership data from FactSet/LionShares database, I find a strong empirical evidence of direct relationship between political proximity and the level of US institutional ownership in ADR firms. My results show that when bilateral political relation between a country and US is bad, the level of US institutional ownership is low for ADR firms from that country. Further, I also show that the number of US institutional investors is affected by political relation as well.

To mitigate the endogeneity concern, I adopt an instrumental variable approach which provides causal link between the political proximity and the level of US institutional ownership. Following Dajud (2013), I use Physical Integrity Rights Index (*PRI*) as a instrument variable which is constructed by summing up country scores in four matters: torture, extrajudicial killing, political imprisonment, and disappearance. The reason for

choosing *PRI* as instrument variable is that human right issues are perhaps the most contentious issue in the United Nations. For this reason, most votes take place on resolutions directly or indirectly related to human rights. Further, following Dreher and Jensen (2013) research, I use leader change of a country, *LC*, as an additional instrument variable. They empirically show that new leaders vote more frequently in line with the U.S. on key votes, on average. 2SLS results with predicted value of $VoteDisagree_{US}$ and $VoteDiverge_{US}$ are consistent with my main result which indicate that bad political relation leads to less US institutional ownership inside ADR firms.

The possible channel through which political proximity affect US institutional ownership examined in this paper is country's popularity among American. This is because political relation estimated using UN voting in the previous year affect country's popularity among American. I find that when Americans favor a country, US institutional ownership is higher. Using my two political proximity variables as instrument variables, I justify that country's popularity among American is a possible channel through which political relation may influence US institutional ownership.

The impact of US institutional ownership on firm value is also examined in this paper. I find that US institutional ownership has positive relationship with Tobin's Q (*Q*). This result is consistent with previous literatures such as Ferreira and Matos (2008) and Aggarwal, Ferreira and Matos (2011) which show that foreign institutional ownership promotes better corporate governance. However, different to previous literatures, to find the causality of US institutional ownership's impact on firm value, I use my two political proximity variable as instrument variables and do 2SLS regression and find consistent results with OLS regression. This 2SLS regression results infer that US institutional ownership level is a possible channel through which that political relation may affect firm values of ADR firms.

As an additional test to investigate whether US institutional ownership level promotes better corporate governance, I also look into class action lawsuits. The previous literatures find evidences indicating that when corporate governance mechanisms and other methods of redress have failed, investors or shareholders decide to sue a company, its officers, and its directors and to initiate class action litigation in the event of material misstatement or omission of fact (Agrawal, Jaffe and Karpoff (1998); Strahan (1998); Ferris, Jandik, Lawless and Makhija (2007); Gande and Lewis (2009)). For this section, I only included ADR firms which are required to follow strict SEC disclosure and GAAP compliance (Level 2 and 3 ADR firms) because not all ADR firms are required to follow full SEC disclosure and GAAP compliance.

I collect all the class action lawsuits from the Securities Class Action Clearinghouse and SEC enforcement from the SEC's Accounting and Auditing Enforcement Releases (AAER) and the SEC's litigation Releases. I use probit model and find consistent results with previous literature by empirically showing that US institutional investors better monitor the firm so that the firm is less likely to face class action lawsuits. Since US institutional ownership level is influenced by political relation, I claim that political relation may affect class action lawsuits through US institutional ownership level. This is empirically also shown in Table 7 with 2SLS regression where two political proximity variables are used as instrument variables.

Following Tsang, Xie and Xin (2014), I examine the impact of foreign institutional investors on firms' voluntary disclosure practices. However I use different news data source, RavenPack, which is a leading global news database used in quantitative and algorithmic trading. It has recently been used in finance research (e.g., Kolasinski, Reed, and Ringgenberg (2013); Dai, Parwada, and Zhang (2015); Shroff, Verdi, and Yu (2014); Dang, Moshirian, and Zhang (2015)). I only keep press-release news which are related to earnings

and empirically show that US institutional ownership significantly increases the frequency of press-release news related to earnings. Further, I test how the US institutional ownership influence the media when disseminating press-release news and find that there is high number of dissemination for earnings press-release news on the same day from Dow Jones Newswire for ADR firms with large US institutional ownership. Those results indirectly support that US institutional ownership promotes better corporate governance because the effective oversight of firm management by outsiders depends critically on the information available to them (Bushman and Smith 2001; Adams and Ferreira 2007; Harris and Raviv 2008; Armstrong, Guay and Weber 2010; Duchin, Matsusaka and Ozbas 2010).

International political crises are also examined in this paper. The data on crises is collected from the International Crisis Behavior project (ICB) and it defines crises as not necessarily start with an attack or military action; rather, it is defined as a perceived change in the probability of a threat that results in the start or end of an international political crisis. I divide countries into regions (i.e. North America, South America, Asia, Africa, Middle East and Oceania) and see if the regional conflict leads to less investment from US institutional investors even though the country is not the actor of the crisis and my results show that when there is a crisis or crises in the region, US institutional investors abstain from putting money in to that region. Also, if the country is actor of the crisis, US institutional ownership is less.

My primary contribution is to set up a new area of literature that explores what factors affect US institutional ownership. No previous literatures have explored the impact of political proximity on institutional ownership and I provide empirical support that political proximity has direct impact on US institutional ownership for ADR firms. I also find consistent results with previous literatures by showing that US institutional ownership promotes better corporate governance and results in higher firm value and less likeliness of class action lawsuits (Agrawal, Jaffe and Karpoff (1998); Strahan (1998); Gillan and Starks

(2003); Ferris, Jandik, Lawless and Makhija (2007); Ferreira and Matos (2008); Gande and Lewis (2009)). Further, I empirically show that political relations may affect firm value and class action lawsuits through institutional ownership as a channel. Finally, I also explore how the region's or the country's political riskiness influence US institutional investors which has not been examined previously.

This paper is structured as follows. Section 2 describes data and Section 3 presents main results and Section 4 is additional results. Section 5 concludes the paper.

Section 2: Data

Section 2.1: Sample (ADR)

Karolyi (2004) gives a detailed explanation on American Depositary Receipt (ADR) and states that ADR is the most popular vehicle through which firms outside of United States to cross-list their shares in the United States. ADR is a negotiable certificate issued by a US bank representing a specified number of shares in a foreign stock traded on a US exchange. ADRs are quoted, are traded, and pay dividend in US dollars, and those transactions take place in accordance with US clearing and settlement conventions. Each ADR is issued by a custodian bank when the underlying shares are deposited in a foreign depository bank, usually by a broker who has purchased the shares in the open market local to the foreign company. An ADR can represent a fraction of a share, a single share, or multiple shares of a foreign security. There are four different levels in ADR and they have different level of accounting disclosure obligation.

Level 1 ADRs trade over-the-counter as OTC Bulletin Board or Pink Sheet issues with no capital-raising activity and require only minimal SEC disclosure and minimal GAAP compliance. In contrast, Level 2 and 3 ADRs are exchange listed securities which require stricter SEC disclosure and compliance with an exchange's own listing rules. Rule 144A are

capital-raising issues in which securities are privately placed to qualified institutional buyers and as a result do not require compliance with GAAP or SEC disclosure.

My sample consists of all the non-U.S companies with American Depositary Receipt from January 2000 until December 2013. To construct a sample that is not biased toward recent ADR events, I use many different data sources for my cross-listing database. Data on non-US firms listing in the US market with ADRs are obtained from the primary depository institutions: Citibank, Bank of New York, JP Morgan, and Deutsche Bank. All institutions have a part of the information, and no individual database includes all US cross-listings actually available. I add to this information data collected directly from the stock exchanges on non-U.S listings (including Canadian firms that list directly on US exchanges) from Worldscope.

Section 2.2: Variables

Section 2.2.1: Political Relations

Following previous literatures (Dajud (2013); Gupta and Xu (2007)), I construct a measure of Political Proximity - bilateral political relations - based on voting data from the United Nations General Assembly collected from U.S. Department of State. It provides for each year and for each country, how many UN votes are identical and unidentical with US votes as well as abstain and absent votes. I define my political proximity variable $VoteDisagree_{US}$ as the number of votes cast by a country at the United Nations that are not identical to the US vote scaled by the total number of votes, which is the sum of identical votes, unidentical votes, abstentions and absences for each country. Also I collect another political proximity variable - $VoteDiverge_{US}$ - which measures the UN vote dissimilarity (-1 of correlation - s_{2un}) from Erick Voeten Dataverse². Voeten (2009) data captures UN General Assembly voting

² <https://dataverse.harvard.edu/dataset.xhtml?persistentId=hdl:1902.1/12379>

coincidence between the US and its trading partner, and aims to capture the degree of political alignment between the two. It is available up to year 2012.

Some previous literatures in politics mention that the United Nation gives no perfect image of broader international politics and UN votes are often considered fairly irrelevant, from the point of view of international politic (Russett (1966); Alesina and Weder (2002)). However, UNGA is the only international arena where we can observe its 150-plus members vote on a variety issues relating to worldwide concern (Russett (1966)) and Voeten (2009) and there are empirical evidences showing that patterns of UN votes are highly correlated with alternative measure of political alignment such as alliances and similarity of interest (Alesina and Weder (2002)). Alam (2012) find such voting patterns across a range of issues can be a useful gauge of the general political orientations of the UN member states, and observing voting alignments over time can help pinpoint changes in the political orientations. I also agree that such characteristics of the UNGA voting system make these votes a good candidate for depicting political alignment or misalignment for the purposes of this paper.

Section 2.2.2: Institutional Ownership

The stock holdings data are drawn from the FactSet/LionShares database, which is a leading information source for global institution ownership. Institutions which are defined as professional money managers with discretionary control over assets (such as mutual funds, pension funds, bank trusts, and insurance companies) are frequently required to disclose publicly their holdings.

For equities traded in the U.S., FactSet/LionShares gathers institutional holdings from the mandatory quarterly 13F filings with the Securities and Exchange Commission (SEC) as well as by rolling up the holdings by individual mutual funds (N-30D filings with the SEC) managed by a particular fund management company. For equities traded outside the U.S., FactSet/LionShares collects ownership data directly from sources such as national regulatory

agencies or stock exchange announcements (e.g., the Regulatory News Service in the U.K.), local and offshore mutual funds, mutual fund industry directories (e.g., European Fund Industry Directory), and company proxies and annual reports.

I use historical filing of the FactSet/LionShares database from January 2000 through December 2013 and consider only American Depositary Receipts (ADR) firms. To handle the issue of different reporting frequency by institutions, I only use the latest holdings of US institutions at each year-end following Ferreira and Matos (2008).

Section 2.4: Controls

I require financial information on firms from Datastream. Appendix A provides definition on firm-level and control-level control variables. I winsorize all firm control variables at the bottom and top 1% levels. Following Ferreira and Matos (2008), firm level controls include size of firm (*SIZE*), log of book to market ratio (*BM*), investment opportunities (*INVOP*), dividend yield (*DY*), return on equity (*ROE*), leverage (*LEV*), cash (*CASH*), closely held shares (*CLOSE*) and foreign sales (*FXSALES*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GRWOTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*). Summary statistics of firm level controls, country level controls, political proximity measure and institutional ownership is provided in Table 1.

<Insert Table 1 here>

Section 3: Results

Section 3.1: Baseline Findings

To investigate whether political proximity influence US institutional ownership level of ADR firms, I use following equation:

$$IO_US_{i,c,t} = \alpha + \beta_1 PP_{c,t} + \beta_2 X_{i,t} + \beta_3 Y_{i,t} + \theta_t + \varepsilon_{i,c,t}$$

where the indices i, c and t correspond to firm, country and time, respectively. θ_t represents year fixed-effect and $\varepsilon_{i,c,t}$ represents firm-time specific error term that is assumed be correlated within the firms and heteroskedastic. As such, all standard errors and test statistics are robust to these two departures from the classical regression model Petersen (2009) and clustered at firm-level. $PP_{c,t}$ indicates political proximity variable while $X_{i,t}$ represents firm-specific characteristics including size of firm (*SIZE*), log of book to market ratio (*BM*), investment opportunities (*INVOP*), annual stock return (*RET*), turnover (*TURN*), dividend yield (*DY*), return on equity (*ROE*), leverage (*LEV*), cash (*CASH*), closely held shares (*CLOSE*). $Y_{i,t}$ included country level controls which are legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GRWOTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*).

I test two different measures of political proximity. $VoteDisagree_{US}$ is number of UN opposite votes casted by a country divided by total number of votes and $VoteDiverge_{US}$ is the UN vote dissimilarity (-1 of correlation - $s2un$) collected from "The Affinity of Nations" database³. I show both $VoteDisagree_{US}$ and $VoteDiverge_{US}$ have negative and statistically significant coefficients with my dependent variable – IO_US in Table 2. IO_US is portion of ownership held by US institutional investors inside ADR firms. Column (1) – (2) show results with year fixed effect; Column (3) – (4) show results with year fixed effect with

³ $s2un$: Values for the Affinity data range from -1 (least similar interests) to 1 (most similar interests). The Affinity data are coded with the "S" indicator ("S" is calculated as $1 - 2*(d)/dmax$, where d is the sum of metric distances between votes by dyad members in a given year and $dmax$ is the largest possible metric distance for those votes, see Signorino and Ritter 1999) from 2 category UNGA vote data (1 = "yes" or approval for an issue; 2 = "no" or disapproval for an issue.), coded as follows: Code for Votes 1 for "Yes" 2 for "Abstain" 3 for "No" 8 for "Absent (country cast no vote and no evidence of non-participation)" 9 for "Non-member" (South Africa is coded as "55" for the 30th to 47th sessions)" - source: The Affinity of Nations }.

number of country control variables; Column (5) – (6) show results with year and country fixed effect. Table 2 provides evidence that bad political relation negatively affects the level of US institutional ownership for ADR firms from that country.

<Insert Table 2 here>

Section 3.2: Endogeneity Tests

Although my findings in the previous section are robust to the omitted or unobservable variables by having fixed effect, the results may still suffer from endogeneity. Specifically, a potential problem is that my proxies for political proximity may be determined simultaneously with the level of US institutional ownership which would bias my results. As a robustness check, I use the instrument variable approach to address this concern.

Following Dajud (2013), I use Physical Integrity Rights Index (*PRI*) as a instrument variable which is constructed by summing up country scores in four matters: torture, extrajudicial killing, political imprisonment, and disappearance. Countries with the high scores are those where human rights are better respected. The reason for choosing *PRI* as instrument variable is that human right issues are perhaps the most contentious issue in the United Nations. For this reason, most votes take place on resolutions directly or indirectly related to human rights. Therefore *PRI* can be seen as highly correlated with *VoteDisagree_{US}* and *VoteDiverge_{US}* . Further, following Dreher and Jensen (2013) research, I use leader change of a country, *LC*, as an additional instrument variable. They empirically show that new leaders vote more frequently in line with the U.S. on key votes, on average. However, leader changes could theoretically impact United Nation General Assembly voting in either direction, either voting with or against the United States. Dreher and Jensen (2013) acknowledge that while the precise influence of individual leaders on policy is conditional on political institutions, executives tend to have the most discretion over foreign policy relative to other issue areas.

Column (1) of Table 3, Panel A shows first stage regressions with *PRI* and *LC*. *PRI* and *LC* are positively correlated with *VoteDisagree_{US}* meaning that when the country better respect human rights and there is a leader change during the year, it disagrees more with US vote. Second stage is shown in Column (2) of Table 3, Panel A and even with the predicted value of *VoteDisagree_{US}*, the results is consistent and significant with our main result in Table 2. Table 3, Panel B shows results for first and second stage regressions for *VoteDiverge_{US}* and the results also support our main result.

<Insert Table 3 here>

Section 4: Additional tests

Section 4.1: Country Popularity Score

Apart from the government level of proximity, I also test how US citizens view of a country affect institutional ownership. To measure each country's popularity among American, I use Gallup surveys. Following Hwang (2011), I construct a Country Popularity Score (CPS) by multiplying the percentage of survey participants who respond very favorably by four, mostly favorably by three, mostly unfavorably by two, and very unfavorably by one and adding these four numbers into one cumulative score. Panel A of Table 4 shows that when the country is favored by US citizens, US institutional ownership level is higher for ADR firms from that country. The causality of this correlation is supported by 2SLS regression with instrument variables as one year lag of my two political proximity variables. I believe that previous years' voting has impact on the Country Popularity Score and the first columns of each tab in Panel B support this. When the country casts more opposite vote in the previous year, its popularity goes down. Results on second stage of 2SLS regressions is reported in the second columns of each tab and the results are consistent with Panel A. Overall result infers that country's popularity among American is a possible channel through which political proximity affect US institutional ownership level.

<Insert Table 4 Here>

Section 4.2: Number of Institutional Investors

Rather than looking at the level of US institutional ownership, this section examine if the number of US institutional investors is actually smaller for the ADR firms. I count the number of institutional investors at the end of each year – *NUMBER_IO*. Table 6 shows negative relationship between the number of US institutional investors and my two political proximity variables. This indicates that the political relation not only affect the portion of US institutional ownership inside ADR firms but also the number of US institutional investors. This result support my main result which is that US institutional investors refrain from investing into ADR firms from countries with bad political relation with US.

<Insert Table 5 here>

Section 4.3: Impact on Firm Value

Following Ferreira and Matos (2008), I also check if US (foreign) intuitional investors affect firm value. I adopt Tobin's Q as a measure of firm value, calculated as the book value of total assets plus the market value of equity minus the book value of equity divided by total assets (Gompers, Ishii, and Metrick, 2003; Doidge, Karolyi, and Stulz, 2004). I estimate regressions of firm's Tobin's Q on variables associated with firm value such as size (*SIZE*), growth opportunities (*INVOP*), leverage (*LEV*), cash holdings (*CASH*) and country controls following previous literatures. Panel A of Table 6 presents estimates of the regression for Tobin's Q for ADR firms. US institutional ownership (*IO_US*) has positive relation with Tobin's Q (Q) which is consistent with previous literatures (Ferreira and Matos, 2008; McConnell and Servaes, 1990).

To find the causality of institutional ownership's impact on firm value, I use my two political proximity variable as instrument variables and do 2SLS regression. This 2SLS regression shows that US institutional ownership level is a possible channel through which

that political relation may affect firm values of ADR firms. Column (1) and (3) from Panel B of Table 6 show first stage regression which is just my main regression from Table 2. Column (2) and (4) show results with predicted value of US institutional ownership level (*IO_US*) and the coefficient of *IO_US* are consistent with Panel A of Table 6.

<Insert Table 6 here>

Section 4.4: Class Action Lawsuit

Not all ADR firms are required to follow full SEC disclosure and GAAP compliance. Level 1 ADRs trade over-the-counter as OTC Bulletin Board or Pink Sheet issues with limited liquidity requiring only minimal SEC disclosure and minimal GAAP compliance. In contrast, Level 2 and 3 ADRs are exchange listed securities which require stricter SEC disclosure and compliance with an exchange's own listing rules. Rule 144A are capital-raising issues in which securities are privately placed to qualified institutional buyers and as a result do not require compliance with GAAP or SEC disclosure.

Using such characteristic of ADR, I test whether US institutional investors influence firms' accounting irregularities or financial misrepresentations in ADR firms which are required to follow strict SEC disclosure and GAAP compliance (Level 2 and 3 ADR firms). The previous literatures investigate corporate governance changes around private lawsuits and government enforcement actions of financial fraud. Agrawal, Jaffe and Karpoff (1998) show some evidence that firms suspected or charged with fraud have unusually high turnover among senior managers and directors. Ferris, Jandik, Lawless and Makhija (2007) find that derivative lawsuits are associated with significant improvements in the boards of directors. Strahan (1998) empirically find that firms that are more likely to suffer from agency problems are more likely to face class actions. These evidences indicate that when corporate governance mechanisms and other methods of redress have failed, investors or shareholders

decide to sue a company, its officers, and its directors and to initiate class action litigation in the event of material misstatement or omission of fact (Gande and Lewis (2009)).

I collect all the class action lawsuits from the Securities Class Action Clearinghouse and SEC enforcement from the SEC's Accounting and Auditing Enforcement Releases (AAER) and the SEC's litigation Releases. I use probit model to test whether US institutional investors better monitor the firm so that the firm is less likely to face class action lawsuits. Panel A of Table 7 shows result for the probit test. Dependent variable, *Case*, equals to 1 if the firm is involved in any class action lawsuits during the year and 0 otherwise. Coefficient of US institutional ownership level (*IO_US*) has negative and significant coefficient and this result is consistent with previous literatures as it indicates that firms are less likely to be involved in class action lawsuits because US (foreign) institutional ownership promote better corporate governance (Agrawal, Jaffe and Karpoff (1998); Strahan (1998); Gillan and Starks (2003); Ferris, Jandik, Lawless and Makhija (2007); Ferreira and Matos (2008); Gande and Lewis (2009)). Panel B of Table 7 shows 2SLS results with two political proximity variables as instrument variables and results are consistent with that of Panel A. This shows that political relation may affect class action lawsuits through US institutional ownership level.

<Insert Table 7 here>

Section 4.5: Information Environment

Following Tsang, Xie and Xin (2014), I also examine the impact of foreign institutional investors on firms' voluntary disclosure practices. However I use different news data source, RavenPack, which is a leading global news database used in quantitative and algorithmic trading. It has recently been used in finance research (e.g., Kolasinski, Reed, and Ringgenberg (2013); Dai, Parwada, and Zhang (2015); Shroff, Verdi, and Yu (2014); Dang, Moshirian, and Zhang (2015)). I only keep press-release news which are related to earnings and count the number of press releases for each firm year from Dow Jones Newswire -

PR_Count. Column (1) of Panel A Table 8 empirically shows that US institutional ownership significantly increases the frequency of press-release news related to earnings. This result indirectly supports that US institutional ownership promotes better corporate governance because the effective oversight of firm management by outsiders depends critically on the information available to them (Bushman and Smith 2001; Adams and Ferreira 2007; Harris and Raviv 2008; Armstrong, Guay and Weber 2010; Duchin, Matsusaka and Ozbas 2010). The result is showing that US institutional investors are one of factors creating such environment.

Further, I test how the US institutional ownership influence the media when disseminating press-release news. When a firm decides to voluntarily disclose information through a press release, it typically hires a press wire service to act as an agent on its behalf and transmit the release to various media outlets such as Dow Jones Newswire. I use Dow Jones Newswire news data only in this section following because it represents the most widely circulated financial news in the US (Tetlock 2007). I count the number of “news flashes” after the press release on the same day and sum up for each firm year – *NF_Count*. Column (2) of Panel A Table 8 shows that there is high number of dissemination for earnings press-release news on the same day from Dow Jones Newswire for ADR firms with large US institutional ownership. This could also mean higher efficiency of the price discovery process as Twedt (2015) finds that newswire dissemination is associated with larger initial price reactions and an increase in the speed with which guidance information is incorporated into price. Such efficiency represent reduced information asymmetries and my result here again indicates that US institutional ownership promotes better corporate governance by creating better information environment.

Panel B of Table 8 shows 2SLS regressions with two political proximity variables as instrument variables. This is to show the causality of US institutional ownership on

information environment and to indicate that US institutional ownership is a possible channel through which political relation may influence information environment. The first column of each tab shows first stage regression of political proximity variable on US institutional ownership which is just my main regression. Second column of each tab shows results with predicted value of US institutional ownership and their coefficients are consistent with the ones in Panel A and are statically significant. Overall results indicate that US institutional ownership is a possible channel through which political relation influence information environment.

<Insert Table 8 here>

Section 4.7: International Crisis

Apart from bilateral political relation, in this section I examine how the international political crises during 2000 – 2013 (collected from the ICB database) affect US institutional ownership. Berkamn, Jacobsen and Lee (2011) find that international political crises have impact on both the mean and volatility of world stock market returns. I divide countries into their regions (i.e. North America, South America, Asia, Africa, Middle East and Oceania) and see if the regional conflict leads to less investment from US institutional investors even though the country is not the actor of the crisis. Column 1 of Table 9 shows that regional political crises (*ICB_Region*) have strong impact on where US institutional investors put money into. *ICB_Region* equals to one if there is a crisis or crises in the region for the year and 0 otherwise. Column 2 shows results for if the country is actor of the crisis. *ICB_Country* equals to one if the country is an actor of the crisis for the year and 0 otherwise. Coefficient for the dummy shows that when there is a crisis or crises in the region and when the country is an actor of the crisis, US institutional investors refrain from putting money in to that region and that country.

<Insert Table 9 here>

Section 5: Conclusion

My main focus of the paper is to investigate how political proximity affects US institutional investors for ADR firms. My results show that when bilateral political relation between a country and US is bad, the level of US institutional ownership is low for ADR firms from that country. Also the number of institutional investors is smaller when the bilateral political relation is bad. The possible channel through which political proximity affect US institutional ownership examined in this paper is country's popularity among American. This is because political relation measured by UN voting in the previous year affects country's popularity among American and such popularity has positive impact on the level US institutional ownership.

The impact of US institutional ownership on firm value, class action lawsuits and information environments are also examined in this paper. The overall results indicate that US institutional ownership promotes better corporate governance for ADR firms. 2SLS tests with two political proximity variables as instrument variables imply that US institutional ownership is a possible channel through which political relation influence firm value, class action lawsuits and information environments.

Apart from bilateral political relation, international political crises are also examined in this paper. I find that the regional conflict leads to less investment from US institutional investors even though the country is not the actor of the crisis. Also, when the country is an actor of the crisis, the level of US institutional ownership is less.

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Table 1: Summary Statistics

	N	Mean	SD	P1	P25	P50	P75	P99
<i>IO_US</i>	10,764	9.536	15.021	0.006	1.314	4.164	10.357	81.668
<i>VoteDisagreeus</i>	424	0.475	0.179	0.056	0.346	0.468	0.600	0.851
<i>VoteDivergeus</i>	391	0.270	0.389	-0.923	0.022	0.269	0.619	0.873
<i>SIZE</i>	10,764	16.272	2.740	10.383	14.460	15.980	18.012	23.090
<i>BM</i>	10,764	0.527	0.812	-1.760	0.042	0.518	1.042	2.636
<i>INVOP</i>	10,764	0.127	0.305	-0.373	-0.003	0.067	0.169	2.085
<i>RET</i>	10,764	0.105	0.412	-0.646	-0.143	0.056	0.280	1.739
<i>TURN</i>	10,764	0.826	0.929	0.000	0.161	0.588	1.142	5.255
<i>DY</i>	10,764	2.466	2.515	0.000	0.650	1.860	3.510	13.070
<i>ROE</i>	10,764	9.877	23.386	-88.980	3.705	10.720	19.010	86.650
<i>LEV</i>	10,764	0.249	0.168	0.000	0.119	0.242	0.361	0.676
<i>CASH</i>	10,764	0.142	0.137	0.002	0.052	0.102	0.183	0.721
<i>CLOSE</i>	10,764	32.510	24.782	0.010	11.340	28.675	51.950	90.230
<i>LEGAL</i>	424	21.697	12.514	0.000	10.367	20.000	31.200	50.000
<i>ENGLISH</i>	424	0.226	0.419	0.000	0.000	0.000	0.000	1.000
<i>DISTANCE</i>	424	8.942	0.608	6.414	8.715	8.876	9.390	9.695
<i>KAUFFMAN</i>	424	0.789	0.795	-0.717	-0.025	0.939	1.537	1.912
<i>GDP_GROWTH</i>	424	3.085	3.197	-5.530	1.320	3.160	5.035	9.550
<i>GDP_CAPITA</i>	424	9.666	1.165	6.721	8.842	10.082	10.583	11.385
<i>MCAP_GDP</i>	424	77.822	57.680	11.738	37.559	62.119	98.760	273.759

Table 2: Main Results

In this table I present regressions of political proximity variables on total US institutional ownership (*IO_US*). *Political_Proximity* include the ratio of opposite UN vote to US from a country (*VoteDisagreeus*) and reverse correlation of UN voting between a country and US (*VoteDivergeus*). Firm level control variables are size of firm (*SIZE*), log of book to market ratio (*BM*), investment opportunities (*INVOP*), annual stock return (*RET*), turnover (*TURN*), dividend yield (*DY*), return on equity (*ROE*), leverage (*LEV*), cash (*CASH*), closely held shares (*CLOSE*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GRWOTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*). The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>IO_US</i>	<i>IO_US</i>	<i>IO_US</i>	<i>IO_US</i>	<i>IO_US</i>	<i>IO_US</i>
<i>VoteDisagreeus</i>	-11.883		-11.722		-8.900	
	(-6.45)		(-3.29)		(-2.00)	
<i>VoteDivergeus</i>		-6.596		-5.826		-7.609
		(-7.31)		(-3.57)		(-2.99)
<i>SIZE</i>	-0.737	-0.644	0.140	0.224	0.313	0.319
	(-8.10)	(-6.89)	(1.39)	(2.12)	(2.56)	(2.52)
<i>BM</i>	0.633	0.412	-0.115	-0.164	0.469	0.498
	(1.89)	(1.16)	(-0.31)	(-0.42)	(1.45)	(1.44)
<i>INVOP</i>	1.218	1.406	-1.328	-1.256	-1.518	-1.490
	(1.59)	(1.72)	(-2.03)	(-1.81)	(-2.55)	(-2.39)
<i>RET</i>	1.390	2.059	0.235	0.624	0.124	0.204
	(3.97)	(4.99)	(0.60)	(1.38)	(0.40)	(0.58)
<i>TURN</i>	3.695	3.621	3.176	3.112	3.206	3.111
	(9.40)	(9.29)	(9.26)	(8.98)	(11.02)	(10.52)
<i>DY</i>	-0.464	-0.451	-0.453	-0.469	-0.416	-0.422
	(-4.96)	(-4.62)	(-4.49)	(-4.38)	(-4.74)	(-4.52)
<i>ROE</i>	0.038	0.039	0.032	0.030	0.030	0.029
	(3.92)	(3.84)	(3.18)	(2.94)	(3.32)	(3.19)
<i>LEV</i>	-4.136	-3.657	-1.257	-0.747	-2.435	-2.099
	(-2.59)	(-2.18)	(-0.81)	(-0.45)	(-1.73)	(-1.41)
<i>CASH</i>	2.359	3.222	8.321	8.724	5.558	6.025
	(0.84)	(1.08)	(3.15)	(3.07)	(2.47)	(2.47)
<i>CLOSE</i>	-0.094	-0.080	-0.058	-0.049	-0.060	-0.055
	(-10.40)	(-8.31)	(-6.07)	(-4.77)	(-6.89)	(-5.81)
<i>LEGAL</i>			-0.072	-0.070		
			(-2.31)	(-2.15)		
<i>ENGLISH</i>			4.029	3.725		
			(5.03)	(4.32)		
<i>DISTANCE</i>			-9.154	-9.030		
			(-15.10)	(-13.94)		
<i>KAUFFMAN</i>			0.522	0.571		
			(0.58)	(0.59)		
<i>GDP_GROWTH</i>			0.403	0.333		
			(4.52)	(4.26)		
<i>GDP_CAPITA</i>			-1.184	-1.487		
			(-2.41)	(-2.98)		
<i>MCAP_GDP</i>			0.011	0.012		
			(1.75)	(1.87)		
<i>CONSTANT</i>	26.946	20.624	103.077	99.131	3.031	-0.529
	(12.27)	(10.29)	(13.00)	(12.87)	(1.20)	(-0.25)
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed Effect	No	No	No	No	Yes	Yes
Observations	13,566	11,921	10,764	9,544	13,566	11,921
R-squared	0.195	0.203	0.438	0.437	0.448	0.450

Table 3: Instrument Variable Approach

In this table I present 2SLS regressions of political proximity variables on total US institutional ownership (*IO_US*). *Political_Proximity* include the ratio of opposite UN vote to US from a country (*VoteDisagreeus*) and reverse correlation of UN voting between a country and US (*VoteDivergeus*). Instrument variable is Physical Integrity Right index (*PRI*). Firm level control variables are size of firm (*SIZE*), log of book to market ratio (*BM*), investment opportunities (*INVOP*), annual stock return (*RET*), turnover (*TURN*), dividend yield (*DY*), return on equity (*ROE*), leverage (*LEV*), cash (*CASH*), closely held shares (*CLOSE*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GRWOTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*). Results are obtained from regressions with year fixed effects. The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

Panel A	(1) <i>VoteDisagreeus</i>	(2) <i>IO_US</i>
<i>PRI</i>	0.047 (12.30)	
<i>LC</i>	0.005 (2.01)	
<i>VoteDisagreeus_hat</i>		-17.001 (-2.37)
<i>SIZE</i>	0.003 (3.41)	0.208 (1.83)
<i>BM</i>	-0.015 (-4.95)	-0.239 (-0.53)
<i>INVOP</i>	-0.001 (-0.15)	-1.109 (-1.53)
<i>RET</i>	0.005 (1.52)	0.790 (1.62)
<i>TURN</i>	-0.003 (-1.55)	3.143 (8.61)
<i>DY</i>	0.001 (0.85)	-0.486 (-4.33)
<i>ROE</i>	0.000 (3.99)	0.029 (2.61)
<i>LEV</i>	0.050 (3.65)	-0.576 (-0.33)
<i>CASH</i>	0.014 (0.88)	8.859 (2.98)
<i>CLOSE</i>	0.000 (5.08)	-0.045 (-3.95)
<i>LEGAL</i>	-0.001 (-4.51)	-0.088 (-2.53)
<i>ENGLISH</i>	-0.049 (-5.95)	3.399 (3.65)
<i>DISTANCE</i>	0.001 (0.42)	-9.102 (-13.47)
<i>KAUFFMAN</i>	-0.079 (-9.88)	0.974 (1.03)
<i>GDP_GROWTH</i>	0.003 (4.12)	0.375 (4.28)
<i>GDP_CAPITA</i>	-0.135 (-17.91)	-2.006 (-2.85)
<i>MCAP_GDP</i>	0.001 (24.51)	0.019 (1.82)
Year Fixed Effect	Yes	Yes
Observations	8,432	8,432
R-squared	0.726	0.417

Panel B	(1)	(2)
	<i>VoteDivergeus</i>	<i>IO_US</i>
<i>PRI</i>	0.130	
	(12.50)	
<i>LC</i>	0.015	
	(2.47)	
<i>VoteDivergeus</i>		-6.181
		(-2.38)
<i>SIZE</i>	0.017	0.256
	(7.59)	-2.18
<i>BM</i>	-0.039	-0.221
	(-5.05)	(-0.50)
<i>INVOP</i>	-0.010	-1.159
	(-0.87)	(-1.60)
<i>RET</i>	0.001	0.732
	(0.16)	-1.53
<i>TURN</i>	-0.005	3.16
	(-1.13)	-8.68
<i>DY</i>	-0.000	-0.498
	(-0.03)	(-4.42)
<i>ROE</i>	0.001	0.027
	(3.10)	-2.53
<i>LEV</i>	0.115	-0.714
	(3.37)	(-0.41)
<i>CASH</i>	0.057	8.966
	(1.38)	-3.01
<i>CLOSE</i>	0.001	-0.046
	(4.85)	(-4.08)
<i>LEGAL</i>	-0.001	-0.076
	(-1.22)	(-2.26)
<i>ENGLISH</i>	-0.111	3.521
	(-5.85)	-3.91
<i>DISTANCE</i>	0.024	-8.971
	(4.27)	(-13.11)
<i>KAUFFMAN</i>	-0.273	0.631
	(-15.04)	-0.64
<i>GDP_GROWTH</i>	0.004	0.345
	(1.83)	-4.22
<i>GDP_CAPITA</i>	-0.304	-1.581
	(-15.83)	(-2.76)
<i>MCAP_GDP</i>	0.003	0.013
	(20.65)	-1.57
Year Fixed Effect	Yes	Yes
Observations	8,428	8,428
R-squared	0.695	0.417

Table 4: Country Popularity Score

In the Panel A of this table I present regressions of country popularity score on total US institutional ownership (*IO_US*). Country popularity score (CPS) variable shows the level of popularity from US citizens. Firm level control variables are size of firm (*SIZE*), log of book to market ratio (*BM*), investment opportunities (*INVOP*), annual stock return (*RET*), turnover (*TURN*), dividend yield (*DY*), return on equity (*ROE*), leverage (*LEV*), cash (*CASH*), closely held shares (*CLOSE*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GROWTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*). Panel B shows 2SLS regression for a regression in Panel A and instrument variables are my two political proximity variables. Results are obtained from regressions with year fixed effects. The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

Panel A	(1) <i>IO_US</i>
<i>CPS</i>	6.872 (5.83)
<i>SIZE</i>	0.252 (1.43)
<i>BM</i>	0.122 (0.19)
<i>INVOP</i>	-3.807 (-3.40)
<i>RET</i>	-0.074 (-0.12)
<i>TURN</i>	3.421 (7.30)
<i>DY</i>	-1.110 (-5.60)
<i>ROE</i>	0.036 (2.17)
<i>LEV</i>	-2.591 (-1.19)
<i>CASH</i>	10.715 (2.61)
<i>CLOSE</i>	-0.089 (-4.73)
<i>LEGAL</i>	-0.220 (-3.60)
<i>ENGLISH</i>	-0.602 (-0.41)
<i>DISTANCE</i>	-10.580 (-15.09)
<i>KAUFFMAN</i>	-3.693 (-1.66)
<i>GDP_GROWTH</i>	1.118 (6.21)
<i>GDP_CAPITA</i>	3.983 (3.23)
<i>MCAP_GDP</i>	0.082 (3.33)
<i>CONSTANT</i>	41.585 (2.89)
Year Fixed Effect	Yes
Observations	5,816
R-squared	0.500

Panel B Dep. Variable	Instrument=L.VoteDisagreeUS		Instrument=L.VoteDivergeus	
	<i>CPS</i>	<i>IO_US</i>	<i>CPS</i>	<i>IO_US</i>
	Model (1)	Model (2)	Model (3)	Model (4)
<i>Instrument</i>	-0.312 (-8.65)		-0.112 (-8.59)	
<i>CPS_hat</i>		125.580 (5.16)		135.992 (5.43)
<i>SIZE</i>	0.009 (5.05)	-0.560 (-1.80)	0.009 (5.24)	-0.625 (-1.91)
<i>BM</i>	-0.020 (-3.82)	2.023 (2.23)	-0.020 (-3.83)	2.204 (2.31)
<i>INVOP</i>	0.010 (1.47)	-4.709 (-3.00)	0.010 (1.42)	-4.818 (-3.00)
<i>RET</i>	0.039 (5.74)	-4.173 (-3.13)	0.039 (5.82)	-4.557 (-3.22)
<i>TURN</i>	-0.010 (-3.73)	4.675 (7.96)	-0.010 (-3.71)	4.770 (7.92)
<i>DY</i>	-0.004 (-2.94)	-0.765 (-3.17)	-0.004 (-2.94)	-0.731 (-2.92)
<i>ROE</i>	-0.000 (-2.05)	0.068 (2.89)	-0.000 (-2.18)	0.070 (2.90)
<i>LEV</i>	0.026 (1.35)	-6.099 (-1.93)	0.025 (1.33)	-6.366 (-1.93)
<i>CASH</i>	0.046 (2.08)	5.280 (1.05)	0.046 (2.09)	4.763 (0.93)
<i>CLOSE</i>	0.000 (2.14)	-0.133 (-4.49)	0.000 (2.12)	-0.136 (-4.41)
<i>ENGLISH</i>	0.007 (16.79)	-0.909 (-5.06)	0.007 (17.78)	-0.971 (-5.20)
<i>DISTANCE</i>	0.335 (14.21)	-37.915 (-4.56)	0.320 (13.67)	-41.186 (-4.78)
<i>KAUFFMAN</i>	-0.002 (-0.62)	-10.158 (-13.15)	0.001 (0.18)	-10.105 (-12.86)
<i>GDP_GROWTH</i>	0.244 (17.96)	-30.041 (-4.22)	0.256 (19.09)	-32.348 (-4.45)
<i>GDP_CAPITA</i>	-0.003 (-1.48)	0.909 (3.15)	-0.002 (-1.22)	0.878 (2.87)
<i>MCAP_GDP</i>	-0.068 (-7.21)	5.866 (3.35)	-0.070 (-7.26)	6.020 (3.32)
<i>CONSTANT</i>	-0.002 (-10.37)	0.263 (4.28)	-0.002 (-10.59)	0.280 (4.39)
Year Fixed Effect	Yes	Yes	Yes	Yes
Observations	5,156	5,156	5,156	5,156
R-squared	0.765	0.526	0.764	0.528

Table 5: Number of Institutional Investors

In this table I present regressions of political proximity variables on total number of US institutional investors (*NUMBER_IO*). *Political_Proximity* include the ratio of opposite UN vote to US from a country (*VoteDisagreeus*) and reverse correlation of UN voting between a country and US (*VoteDivergeus*). Firm level control variables are size of firm (*SIZE*), log of book to market ratio (*BM*), investment opportunities (*INVOP*), annual stock return (*RET*), turnover (*TURN*), dividend yield (*DY*), return on equity (*ROE*), leverage (*LEV*), cash (*CASH*), closely held shares (*CLOSE*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GRWOTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*). Results are obtained from regressions with year fixed effects. The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

	(1)	(2)
	<i>NUMBER_IO_US</i>	<i>NUMBER_IO_US</i>
<i>VoteDisagreeus</i>	-78.969 (-4.02)	
<i>VoteDivergeus</i>		-40.994 (-4.35)
<i>SIZE</i>	8.497 (12.58)	8.888 (12.22)
<i>BM</i>	1.972 (1.31)	1.900 (1.24)
<i>INVOP</i>	-2.545 (-0.87)	-1.687 (-0.55)
<i>RET</i>	-2.142 (-1.32)	-0.326 (-0.19)
<i>TURN</i>	9.086 (4.65)	8.984 (4.52)
<i>DY</i>	0.234 (0.51)	-0.084 (-0.17)
<i>ROE</i>	0.191 (3.71)	0.205 (4.13)
<i>LEV</i>	-17.853 (-2.70)	-20.142 (-2.95)
<i>CASH</i>	-24.569 (-2.38)	-23.265 (-2.20)
<i>CLOSE</i>	-0.323 (-5.88)	-0.299 (-5.36)
<i>LEGAL</i>	-0.727 (-4.12)	-0.752 (-4.27)
<i>ENGLISH</i>	20.805 (4.50)	19.587 (4.02)
<i>DISTANCE</i>	-41.521 (-12.74)	-38.649 (-11.93)
<i>KAUFFMAN</i>	10.620 (1.84)	11.023 (1.81)
<i>GDP_GROWTH</i>	2.015 (3.81)	1.562 (3.34)
<i>GDP_CAPITA</i>	-3.196 (-0.95)	-5.858 (-1.74)
<i>MCAP_GDP</i>	0.105 (3.34)	0.113 (3.31)
<i>CONSTANT</i>	341.664 (7.77)	310.364 (7.26)
Year Fixed Effect	Yes	Yes
Observations	10,764	9,544
R-squared	0.388	0.389

Table 6: Firm Value

In Panel A of this table I present regressions of US institutional investors level (*IO_US*) on firm value (Tobin's *Q*). Panel B shows 2SLS regression with the ratio of opposite UN vote to US from a country (*VoteDisagreeus*) and reverse correlation of UN voting between a country and US (*VoteDivergeus*) as instrument variables. Firm level control variables are size of firm (*SIZE*), investment opportunities (*INVOP*), leverage (*LEV*) and cash (*CASH*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GRWOTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*). Results are obtained from regressions with year fixed effects. The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

Panel A	(1)
	<i>Q</i>
<i>IO_US</i>	0.002 (2.31)
<i>SIZE</i>	0.040 (10.15)
<i>INVOP</i>	0.179 (7.52)
<i>LEV</i>	-0.296 (-6.07)
<i>CASH</i>	0.922 (10.33)
<i>LEGAL</i>	-0.008 (-7.12)
<i>ENGLISH</i>	0.221 (7.25)
<i>DISTANCE</i>	-0.059 (-4.59)
<i>KAUFFMAN</i>	0.231 (6.75)
<i>GDP_GROWTH</i>	0.002 (0.70)
<i>GDP_CAPITA</i>	-0.138 (-4.87)
<i>MCAP_GDP</i>	-0.000 (-8.25)
<i>CONSTANT</i>	1.482 (5.17)
Year Fixed Effect	Yes
Observations	11,810
R-squared	0.237

Panel B Dep. Variable	Instrument= VoteDisagreeus		Instrument= VoteDivergeus	
	<i>IO_US</i>	<i>Q</i>	<i>IO_US</i>	<i>Q</i>
	Model (1)	Model (2)	Model (3)	Model (4)
<i>Instrument</i>	-14.117 (-3.66)		-6.565 (-3.75)	
<i>IO_US_hat</i>		0.027 (2.81)		0.028 (3.04)
<i>SIZE</i>	0.334 (2.99)	0.025 (4.26)	0.413 (3.59)	0.025 (4.02)
<i>INVOP</i>	-0.394 (-0.57)	0.174 (5.35)	-0.409 (-0.56)	0.171 (4.92)
<i>LEV</i>	-1.200 (-0.72)	-0.248 (-3.74)	-0.812 (-0.46)	-0.239 (-3.38)
<i>CASH</i>	11.026 (3.83)	0.685 (4.91)	11.353 (3.68)	0.656 (4.54)
<i>LEGAL</i>	-0.019 (-0.56)	-0.007 (-5.11)	-0.019 (-0.56)	-0.006 (-4.27)
<i>ENGLISH</i>	3.985 (4.52)	0.062 (1.00)	3.606 (3.85)	0.074 (1.20)
<i>DISTANCE</i>	-9.823 (-14.81)	0.209 (2.11)	-9.687 (-13.81)	0.227 (2.33)
<i>KAUFFMAN</i>	-0.881 (-0.84)	0.238 (5.43)	-0.756 (-0.68)	0.234 (5.08)
<i>GDP_GROWTH</i>	0.260 (2.68)	-0.002 (-0.44)	0.191 (2.25)	0.002 (0.42)
<i>GDP_CAPITA</i>	-0.234 (-0.43)	-0.164 (-4.81)	-0.562 (-1.03)	-0.161 (-4.72)
<i>MCAP_GDP</i>	0.016 (2.35)	0.000 (0.75)	0.016 (2.30)	0.000 (0.47)
Year Fixed Effect	Yes	Yes	Yes	Yes
Observations	10,455	10,455	9,291	9,291
R-squared	0.381	0.253	0.385	0.271

Table 7: Class Action Lawsuit

In Panel A of this table I present probit test of US institutional investors level (*IO_US*) on class action laws suits. Panel B shows 2SLS regression with the ratio of opposite UN vote to US from a country (*VoteDisagreeus*) and reverse correlation of UN voting between a country and US (*VoteDivergeus*) as instrument variables. Firm level control variables are size of firm (*SIZE*), investment opportunities (*INVOP*), annual stock return (*RET*), turnover (*TURN*), dividend yield (*DY*), closely held shares (*CLOSE*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*) and corporate governance level collected from Kauffman (2007) (*KAUFFMAN*). The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

Panel A	(1) <i>Case</i>
<i>IO_US</i>	-0.032 (-3.67)
<i>SIZE</i>	0.247 (3.34)
<i>INVOP</i>	-0.971 (-1.62)
<i>RET</i>	-1.319 (-4.33)
<i>TURN</i>	0.180 (1.73)
<i>DY</i>	0.055 (1.64)
<i>CLOSE</i>	-0.012 (-2.58)
<i>LEGAL</i>	-0.061 (-4.46)
<i>ENGLISH</i>	1.675 (3.60)
<i>KAUFFMAN</i>	1.761 (3.18)
<i>CONSTANT</i>	-7.675 (-3.87)
Observations	2,621
R-squared	0.316

Panel B Dep. Variable	Instrument=VoteDisagreeus		Instrument=VoteDivergeus	
	<i>IO_US</i>	<i>Case</i>	<i>IO_US</i>	<i>Case</i>
	Model (1)	Model (2)	Model (3)	Model (4)
<i>Instrument</i>	-19.598 (-4.30)		-9.084 (-3.81)	
<i>IO_US_hat</i>		-0.117 (-2.80)		-0.110 (-1.89)
<i>SIZE</i>	-1.213 (-3.24)	0.150 (1.70)	-1.144 (-2.90)	0.151 (1.72)
<i>INVOP</i>	-1.328 (-0.64)	-1.274 (-1.60)	-1.182 (-0.55)	-1.280 (-1.58)
<i>RET</i>	2.103 (2.20)	-1.310 (-4.34)	2.635 (2.53)	-1.200 (-4.20)
<i>TURN</i>	5.077 (5.23)	0.651 (2.56)	5.086 (5.20)	0.610 (1.79)
<i>DY</i>	-1.328 (-5.24)	-0.076 (-1.27)	-1.343 (-5.08)	-0.071 (-0.88)
<i>CLOSE</i>	-0.108 (-3.16)	-0.024 (-4.15)	-0.103 (-2.90)	-0.023 (-3.14)
<i>ENGLISH</i>	0.279 (2.23)	-0.026 (-1.71)	0.285 (2.27)	-0.029 (-1.79)
<i>KAUFFMAN</i>	4.435 (1.40)	2.222 (2.59)	3.782 (1.21)	2.190 (2.44)
<i>CONSTANT</i>	37.312 (5.18)	-5.635 (-2.55)	29.003 (3.88)	-5.668 (-2.63)
Observations	2,496	2,496	2,247	2,247
R-squared	0.391	0.325	0.390	0.313

Table 8: Information Environment

In Panel A of this table I present regressions of US institutional investors level (*IO_US*) on number of press release (*PR_Count*) and number of news flashes following press release on the same day (*NF_Count*). Panel B shows 2SLS regression with the ratio of opposite UN vote to US from a country (*VoteDisagreeus*) and reverse correlation of UN voting between a country and US (*VoteDivergeus*) as instrument variables. Firm level control variables are size of firm (*SIZE*), investment opportunities (*INVOP*), leverage (*LEV*) and cash (*CASH*). Country level control variable include legal regime quality index quality index (*LEGAL*), a dummy indicating whether country's official language is English (*ENGLISH*), distance between a country's capital and Washington D.C. (*DISTANCE*), corporate governance level collected from Kauffman (2007) (*KAUFFMAN*), GDP growth (*GDP_GRWOTH*), GDP per capita (*GDP_CAPITA*) and market capitalization to GDP (*MCAP_GDP*). Results are obtained from regressions with year fixed effects. The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

	(1)	(2)
	<i>PR_Count</i>	<i>NF_Count</i>
<i>IO_US</i>	0.015	0.007
	(4.46)	(7.18)
<i>SIZE</i>	0.003	0.004
	(0.31)	(1.87)
<i>BM</i>	0.048	0.002
	(1.55)	(0.28)
<i>INVOP</i>	0.020	-0.037
	(0.37)	(-2.47)
<i>RET</i>	-0.088	-0.002
	(-2.63)	(-0.24)
<i>TURN</i>	0.002	-0.010
	(0.06)	(-1.60)
<i>DY</i>	-0.018	-0.007
	(-2.32)	(-3.43)
<i>ROE</i>	-0.001	-0.000
	(-0.71)	(-0.51)
<i>LEV</i>	-0.184	-0.056
	(-1.27)	(-1.61)
<i>CASH</i>	0.450	-0.013
	(2.47)	(-0.34)
<i>CLOSE</i>	-0.001	0.000
	(-0.65)	(0.39)
<i>LEGAL</i>	0.007	0.000
	(2.42)	(0.42)
<i>ENGLISH</i>	-0.054	0.018
	(-0.77)	(1.11)
<i>DISTANCE</i>	-0.793	-0.167
	(-13.67)	(-10.93)
<i>KAUFFMAN</i>	-0.179	0.015
	(-1.30)	(0.47)
<i>GDP_GROWTH</i>	0.073	0.013
	(6.66)	(5.09)
<i>GDP_CAPITA</i>	0.016	-0.004
	(0.16)	(-0.19)
<i>MCAP_GDP</i>	-0.000	-0.000
	(-0.16)	(-1.93)
<i>CONSTANT</i>	7.108	1.484
	(6.83)	(6.93)
Year Fixed Effect	Yes	Yes
Observations	12,218	12,218
R-squared	0.342	0.244

Panel B Dep. Variable	Instrument=VoteDisagreeUS		Instrument=VoteCorrUS	
	<i>IO_US</i>	<i>PR_Count</i>	<i>IO_US</i>	<i>PR_Count</i>
	Model (1)	Model (2)	Model (3)	Model (4)
<i>Instrument</i>	-10.894 (-3.21)		-5.422 (-3.51)	
<i>IO_US_hat</i>		0.197 (2.64)		0.188 (2.76)
<i>SIZE</i>	0.156 (1.59)	-0.018 (-0.77)	0.233 (2.25)	-0.019 (-0.79)
<i>BM</i>	-0.020 (-0.06)	0.021 (0.29)	-0.026 (-0.07)	0.020 (0.28)
<i>INVOP</i>	-0.911 (-1.38)	0.188 (1.30)	-0.867 (-1.21)	0.198 (1.33)
<i>RET</i>	-0.503 (-1.30)	-0.015 (-0.17)	-0.156 (-0.35)	-0.052 (-0.56)
<i>TURN</i>	3.177 (9.29)	-0.584 (-2.41)	3.170 (9.10)	-0.554 (-2.51)
<i>DY</i>	-0.460 (-4.46)	0.067 (1.71)	-0.468 (-4.27)	0.059 (1.64)
<i>ROE</i>	0.032 (3.30)	-0.006 (-2.05)	0.028 (2.90)	-0.005 (-1.82)
<i>LEV</i>	-1.219 (-0.80)	0.112 (0.36)	-0.826 (-0.50)	0.058 (0.19)
<i>CASH</i>	7.768 (3.03)	-0.927 (-1.28)	8.133 (2.97)	-0.892 (-1.25)
<i>CLOSE</i>	-0.056 (-5.76)	0.010 (2.40)	-0.047 (-4.52)	0.009 (2.46)
<i>ENGLISH</i>	-0.073 (-2.36)	0.019 (2.68)	-0.074 (-2.27)	0.018 (2.55)
<i>DISTANCE</i>	3.983 (5.14)	-0.907 (-2.35)	3.659 (4.43)	-0.841 (-2.41)
<i>KAUFFMAN</i>	-8.983 (-14.92)	0.876 (1.27)	-8.805 (-13.72)	0.811 (1.28)
<i>GDP_GROWTH</i>	0.565 (0.63)	-0.217 (-0.96)	0.611 (0.64)	-0.260 (-1.11)
<i>GDP_CAPITA</i>	0.372 (4.12)	0.007 (0.29)	0.305 (3.86)	0.007 (0.35)
<i>MCAP_GDP</i>	-1.156 (-2.40)	-0.015 (-0.10)	-1.449 (-2.96)	-0.000 (-0.00)
<i>CONSTANT</i>	0.010 (1.67)	0.001 (0.76)	0.011 (1.77)	0.000 (0.58)
Year Fixed Effect	Yes	Yes	Yes	Yes
Observations	10,736	10,736	9,519	9,519
R-squared	0.427	0.346	0.424	0.341

Panel B cont. <i>Dep. Variable</i>	Instrument=VoteDisagreeUS		Instrument=VoteCorrUS	
	<i>IO_US</i>	<i>NF_Count</i>	<i>IO_US</i>	<i>NF_Count</i>
	Model (1)	Model (2)	Model (3)	Model (4)
<i>Instrument</i>	-10.894 (-3.21)		-5.422 (-3.51)	
<i>IO_US_hat</i>		0.057 (2.90)		0.057 (3.07)
<i>SIZE</i>	0.156 (1.59)	-0.001 (-0.14)	0.233 (2.25)	-0.000 (-0.04)
<i>BM</i>	-0.020 (-0.06)	-0.006 (-0.29)	-0.026 (-0.07)	-0.009 (-0.44)
<i>INVOP</i>	-0.911 (-1.38)	0.007 (0.16)	-0.867 (-1.21)	-0.000 (-0.01)
<i>RET</i>	-0.503 (-1.30)	0.022 (0.85)	-0.156 (-0.35)	0.005 (0.18)
<i>TURN</i>	3.177 (9.29)	-0.172 (-2.72)	3.170 (9.10)	-0.172 (-2.86)
<i>DY</i>	-0.460 (-4.46)	0.016 (1.56)	-0.468 (-4.27)	0.015 (1.56)
<i>ROE</i>	0.032 (3.30)	-0.002 (-2.02)	0.028 (2.90)	-0.001 (-1.88)
<i>LEV</i>	-1.219 (-0.80)	0.027 (0.31)	-0.826 (-0.50)	0.025 (0.27)
<i>CASH</i>	7.768 (3.03)	-0.411 (-2.18)	8.133 (2.97)	-0.422 (-2.17)
<i>CLOSE</i>	-0.056 (-5.76)	0.003 (2.77)	-0.047 (-4.52)	0.003 (2.94)
<i>ENGLISH</i>	-0.073 (-2.36)	0.004 (1.90)	-0.074 (-2.27)	0.003 (1.70)
<i>DISTANCE</i>	3.983 (5.14)	-0.220 (-2.17)	3.659 (4.43)	-0.211 (-2.18)
<i>KAUFFMAN</i>	-8.983 (-14.92)	0.290 (1.61)	-8.805 (-13.72)	0.292 (1.70)
<i>GDP_GROWTH</i>	0.565 (0.63)	0.002 (0.03)	0.611 (0.64)	0.007 (0.11)
<i>GDP_CAPITA</i>	0.372 (4.12)	-0.006 (-1.08)	0.305 (3.86)	-0.007 (-1.29)
<i>MCAP_GDP</i>	-1.156 (-2.40)	-0.012 (-0.35)	-1.449 (-2.96)	-0.013 (-0.36)
<i>CONSTANT</i>	0.010 (1.67)	0.000 (1.19)	0.011 (1.77)	0.000 (1.11)
Year Fixed Effect	Yes	Yes	Yes	Yes
Observations	10,736	10,736	9,519	9,519
R-squared	0.429	0.230	0.426	0.231

Table 9: International Political Risks

In this table I present regressions of international crisis dummy variables on total US institutional ownership (*IO_US*). *Political_Proximity* include the ratio of opposite UN vote to US from a country (*VoteDisagreeus*) and reverse correlation of UN voting between a country and US (*VoteDivergeus*). *ICB_Region* equals to one if there is a crisis or crises in the region for the year and 0 otherwise. Column 2 shows results for if the country is actor of the crisis. *ICB_Country* equals to one if the country is an actor of the crisis for the year and 0 otherwise. Firm level control variables are size of firm (*SIZE*), log of book to market ratio (*BM*), investment opportunities (*INVOP*), annual stock return (*RET*), turnover (*TURN*), dividend yield (*DY*), return on equity (*ROE*), leverage (*LEV*), cash (*CASH*), closely held shares (*CLOSE*). Results are obtained from regressions with year fixed effects. The values of the t-statistics in parentheses are based on robust standard errors clustered at the firm level.

	(1)	(2)
	<i>IO_US</i>	<i>IO_US</i>
<i>Crisis_Region</i>	-0.646	
	(-2.05)	
<i>Crisis_Country</i>		-1.132
		(-2.74)
<i>SIZE</i>	0.170	0.145
	(1.70)	(1.50)
<i>BM</i>	0.186	0.217
	(0.60)	(0.70)
<i>INVOP</i>	-1.187	-1.155
	(-2.09)	(-2.03)
<i>RET</i>	-0.026	-0.010
	(-0.08)	(-0.03)
<i>TURN</i>	3.099	3.102
	(9.27)	(9.28)
<i>DY</i>	-0.431	-0.424
	(-4.76)	(-4.68)
<i>ROE</i>	0.025	0.025
	(2.68)	(2.68)
<i>LEV</i>	-2.089	-2.140
	(-1.43)	(-1.47)
<i>CASH</i>	6.834	6.669
	(2.99)	(2.92)
<i>CLOSE</i>	-0.064	-0.064
	(-6.97)	(-7.04)
<i>LEGAL</i>	-0.063	-0.063
	(-2.06)	(-2.07)
<i>ENGLISH</i>	4.697	4.713
	(7.32)	(7.36)
<i>DISTANCE</i>	-9.309	-9.409
	(-15.13)	(-15.56)
<i>KAUFFMAN</i>	-0.106	-0.153
	(-0.11)	(-0.17)
<i>GDP_GROWTH</i>	0.373	0.368
	(4.28)	(4.19)
<i>GDP_CAPITA</i>	0.377	0.436
	(0.68)	(0.80)
<i>MCAP_GDP</i>	0.001	0.000
	(0.88)	(0.35)
<i>CONSTANT</i>	85.301	85.958
	(11.29)	(11.58)
Year Fixed Effect	Yes	Yes
Observations	12,245	12,245
R-squared	0.427	0.428

Appendix

Variable	Abbreviation	Definition
Market capitalization (log)	<i>SIZE</i>	Log annual market capitalization in US\$ (Datastream item MV)
Book-to-market (log)	<i>BM</i>	Log of the book-to-market equity ratio (market value is Datastream item MV and book value is WorldScope item 03501)
Investment opportunities	<i>INVOP</i>	Two-year geometric average of annual growth rate in net sales in US (WorldScope item 01001)
Annual stock return	<i>RET</i>	Annual (end-of-year) geometric stock rate of return (Datastream item RI)
Turnover	<i>TURN</i>	Annual share volume (Datastream item VO) divided by adjusted shares outstanding (Datastream items NOSH/AF)
Dividend yield	<i>DY</i>	Dividend yield (WorldScope item 09404)
Return on equity	<i>ROE</i>	Return on equity (WorldScope item 08301)
Leverage	<i>LEV</i>	Ratio of total debt (WorldScope item 03255) to total assets (WorldScope item 02999)
Cash	<i>CASH</i>	Ratio of cash and short term investments (WorldScope item 02001) to total assets (WorldScope item 02999)
Closely held shares	<i>CLOSE</i>	Number of shares held by insiders as a proportion of the number of shares outstanding (WorldScope item 08021)
Tobin's Q (log)	<i>Q</i>	Sum of total assets (WorldScope item 02999) plus market value of equity (WorldScope item MV) minus book value of equity (WorldScope item 03501) divided by total assets
Legal regime quality index	<i>LEGAL</i>	Anti-director rights multiplied by the rule of law index (Laporta, Lopez-de-Silanes, Shleifer, and Vishny, 1998)
English language dummy	<i>ENGLISH</i>	English language dummy variable, which equals one when a country's official language is English (World Factbook)
Distance (log)	<i>DISTANCE</i>	Bilateral distance in kilometres (log) between a country capital city and Washington D.C.
Corporate governance level	<i>KAUFFMAN</i>	Average of the six KKM indicators to create a variable which captures the annual average governance quality of a country. These indicators cover several dimensions of a country's governance, related to the level of accountability and freedom of speech, the efficiency and stability of the political system, the quality and independence of public services, the regulatory quality, the rule of law, and the level of corruption
GDP Growth	<i>GDP_GROWTH</i>	Annual gross domestic product growth in percentage (World Bank WDI)
GDP per capita (log)	<i>GDP_CAPITA</i>	Annual log gross domestic product per capita in US\$ (World Bank WDI)
Market capitalization to GDP (log)	<i>MCAP_GDP</i>	Annual ratio of stock market capitalization to gross domestic product in US\$ (World Bank WDI)