

Data Appendix

“The Political Economy of Corporate Governance”

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1. Shareholder Protection

We extend the indicator constructed by LLSV (1998) to the entire interval between 1993 and 2001, relying on the answers to questionnaires sent to legal experts and business practitioners around the world. The text of the questionnaire is reported in Table A1. The respondents for each country are listed in Table A2. The Our panel includes 47 of the original 49 countries studied by LLSV (1998), since for Jordan and Sri Lanka there were no responses to our questionnaire.

The replies to the individual questions of the questionnaire are reported in Tables A3 to A9. Table A10 contains the Antidirector Rights index for all the years, computed according to the same procedure as LLSV (1998). Specifically, we recoded the “YES” and “NO” replies shown in Tables A4 to A8 as 1 and 0 respectively, and the percentages reported in Table A9 as 1 if they are less or equal than 10% and 0 otherwise. Finally, we summed across the resulting six dummy variables to obtain the data reported in Table A10.

Assuming that the data for Antidirector Rights reported and used by LLSV (1998) refer to 1993, our data differ slightly from theirs for the following five countries:

- (i) In Belgium, voting by mail was allowed since 1991 provided that the company’s articles of association allow it (according to LLSV it was not), and pre-emptive rights existed before 1991 (while according to LLSV it did not). Specifically, lifting the preemptive right of existing shareholders in all cases required a prior shareholders’ approval. If the Board of Directors decide the capital increase within the limits of the authorised capital, a derogation to the shareholders’ preemptive rights is possible only if it has been expressly authorised by the shareholders’ meeting.
- (ii) In Brazil, deviations from the rule of one share per one vote were allowed since 1976 (while according to LLSV they were not): traditionally, preferred shares (which can have some restrictions to voting rights) can form up to $\frac{2}{3}$ of the social capital. Since 2001, this limit has been reduced to $\frac{1}{2}$. (However, shares with multiple votes are not allowed.) Secondly, the law allows cumulative voting since 1976 (while according to LLSV they were not) and guarantees a proportional quota of representatives in the board since 2001. Thirdly, shareholders’ preemptive rights existed at least since 1976 (while according to LLSV they were not).
- (iii) In Egypt, shareholder minorities have had the opportunity to challenge the decision of management in court since 1992 (while according to LLSV they did not).
- (iv) In Germany, the law has always granted each shareholder the right to buy newly issued shares in proportion to his previous holdings. This right can be excluded only in the vote on the issue with a majority of 75% of present or represented shareholders. This is in contrast with LLSV, according to which no preemptive rights were granted.
- (v) In Israel, cumulative voting was already allowed in 1993, while according to LLSV it was not.

2. Employment Protection

Average of indicators on regular contracts (procedural inconveniences, notice and severance pay for no-fault individual dismissals, difficulty of dismissal) and short-term contract (fixed-term and temporary), drawn from Nicoletti and Scarpetta (2001) and spanning the 1990-98 interval.

3. Proportionality

It equals 3 if 100 percent of seats are assigned via a proportional rule, 2 if the majority of seats are assigned by this rule, 1 if a minority of seats is assigned proportionally, and 0 if no seats are assigned in this way. For almost all country-year observations, the data are drawn from the World Bank Database on Political Institutions (WBDPI), and defined in Beck et al. (2002). It is defined as $PR - PLURALTY - HOUSESYS + 2$, which are variables drawn from WBDPI, and defined in Beck et al. (2002). We checked these data against the information contained in Shugart and Wattenberg (2003) and in Persson and Tabellini (2004). This led us to change the proportionality variable for three countries:

- (i) Crisp and Rey (2003), p. 187, indicate that in 1989 Venezuela introduced an electoral reform with which it switched from a pure proportional system to a system in which 47 percent of the seats would be allocated by a majoritarian rule. Accordingly, we changed the figures for the Proportionality variable from 3 to 2 from 1989 included.
- (ii) Reed and Thies (2003) write that in 1994 Japan switched from a pure majoritarian system to a mixed system, in which 40 percent of the seats are allocated via a proportional rule. Accordingly, we changed the figures for the Proportionality variable from 1 to 0 before 1994.
- (iii) Shugart and Wattenberg (2003), Table 1.3, pp. 20-21, report that in the Philippines 20 percent of the seats are allocated via a proportional rule. Persson and Tabellini (2004) state that this system was introduced in 1996, while it was a pure majoritarian system before that date. Accordingly, we changed the figures for the Proportionality variable from 0 to 1 from 1996 onwards.

4. Other Political Variables:

- (i) Left, Center and Right are dummy variables capturing political orientation of the executive as measured in the WBDPI. They do not sum to 1 because of the presence of political parties that do not fit into left-center-right classification.
- (ii) District Size is the average number of inhabitants per district, in million. It is computed as the mean number of representatives elected by each district in elections for the lower house divided by the total number of seats (drawn from the WBDPI) and multiplied by million inhabitants (drawn from the World Penn Tables).
- (iii) Tenure of Democracy measures how long a country has been a democracy, measured in decades. It equals the variable Tenure of System (TENSYS) in the WBDPI, since all countries in our sample are democracies.
- (iv) Threshold is defined as the minimum vote share that a party must obtain in order to take at least one seat in systems where some seats are assigned via a proportional system. Therefore, it does not apply to purely majoritarian systems.
- (v) Competitiveness of Democracy equals one if the largest party has less than 75% of the seats ($LIEC=7$ in WBDPI), and zero otherwise.

5. Legal Origin

English, German and Scandinavian Legal Origin are dummy variables that reflect the origin of the legal system, drawn from LLSV (1998).

6. Instruction to replicate the results and definition of the variables

Copy the files `pv_aer_data.dta` and `pv_aer_program.do` into a new directory `c:\pv`, then run the program `pv_aer_program.do` in STATA.

The file `pv_aer_data.dta` contains the following variables:

Variable:	Description:
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common	English Legal Origin [from LLSV (1998)]
countryc	Country Name
distsize	Population per district in million: (mdmh / seats) * population [WBDPI]
epl	Employment Protection [from Nicoletti and Scarpetta (2001)]
execrlc	Political orientation of the executive (R=right, L=left, C=center) [from WBDPI]
german	German Legal Origin [from LLSV (1998)]
liec	Legislative and Executive Indices of Electoral Competitiveness [from WBDPI]
llsv	Antidirector rights [from LLSV (1998)]
oecd	Dummy variable that equals 1 for OECD countries and 0 otherwise
prop	Proportionality [as defined in the paper]
scand	Scandinavian Legal Origin [from LLSV (1998)]
shp	Shareholder Protection [from our questionnaire]
tensys	Tenure of system [from WBDPI]
thresh	Minimum vote share for a party to take one seat [from WBDPI]
year	Year

References

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- Persson, Torsten and Tabellini, Guido. *The Economic Effect of Constitutions: What Do the Data Say?* Cambridge, MA: MIT Press, 2004.
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Table A1. Questionnaire

	According to the study by La Porta et al. (1998), in 1993 the answer was:	What is the answer to this question today in [country name]? If it differs from that in the previous column, <u>when</u> was the law changed and <u>how</u>?
Does the law require that all share capital carry one vote per share?	YES/NO	
Does the law allow shareholders to mail their proxy vote to the firm?	YES/NO	
Does the law prevent firms from requiring that shareholders deposit their shares prior to a general shareholder meeting?	YES/NO	
Does the law allow for minority shareholder interest representation on the board of directors, either via cumulative voting ¹ or via a guaranteed proportional quota of representatives in the board ² ?	YES/NO	
Does the law grant minority shareholders (owning 10% of share capital or less) a judicial venue to challenge the decision of management or of the assembly or the right to step out of the company by requiring the company to purchase their shares when they object to certain fundamental changes such as mergers, asset dispositions, and changes in the articles of incorporation?	YES/NO	
Does the law grant shareholders the first opportunity to buy new issues of stock and require a shareholders' vote to waive this right?	YES/NO	
What is the minimum percentage of ownership of share capital necessary to call for an extraordinary shareholders' meeting?	...%	

¹ With cumulative voting, shareholders can cast all their votes for one candidate standing for the election to the board of directors.

² With this mechanism, minority interests may name a number of board directors proportional to their voting shares.

Table A2. Survey respondents

Argentina	Alejandro Dillon
Australia	Paul McCarthy, Mark Balnaves, Fiona Lourey
Austria	Manfred Grunanger, Andrea Kuras-Eder
Belgium	Michel Colinet, Matthieu Duplat, Elena Tedesco
Brazil	Eduardo Bereldis del Nero, Fabio Carneiro
Canada	Bruce Wright
Chile	Citicorp Chile
Colombia	Hugo Diaz-Baez, Juan Carlos Enciso S.
Denmark	Peter Schou, Allan Braad Larsen, Sanne Dahl Larsen
Ecuador	Sebastian Correa
Egypt	Ismail Shoukry, Maged Shawky Sourial and Sameh Abou-Zeid
Finland	Ilpo Uotila
France	Elena Tedesco
Germany	Albrecht von Loewenich, Ori Wiener, Steffen Schneider, René Wisch-Bechtel
Greece	Dimitris Vareltzidis, Dimitrios Spartiotis, Costas Mitropoulos, Harilaos Mertzanis
Hong Kong	Securities and Futures Commission
India	Varun Khanna
Indonesia	Teuku Radja Sjahnan
Ireland	Central Bank of Ireland
Israel	Amir Licht
Italy	Luca Enriques, Elena Tedesco
Japan	Isao Murufuji, Masahiro Kambe, Jun Hayakawa
Kenya	Naval Sood, Sheetal Kapila
Malaysia	Swee Ho Hui
Mexico	Francisco Perez, Victor Vazquez Avila
Netherlands	M.L.M Noesen, Luc Renneboog
New Zealand	Joseph Healy
Nigeria	Richard Godwin
Norway	Kim Boman, Eirik Ihlen
Pakistan	Samir Ahmed
Peru	Javier Nagammine
Philippines	Justina Callangan
Portugal	Henrique Menezes, Susana Coutinho
Singapore	Lian Sim Yeo
South Africa	Philip Armstrong, Kumaran Pather
South Korea	Dea-Joon Park, Sung Bum Kim
Spain	Elena Tedesco
Sweden	Ulf Geijer
Switzerland	Martin Frischknecht, Christina Bürgi
Taiwan	Securities and Futures Commission
Thailand	Soravis Krairiksh, Rachamarn Suchitchon
Turkey	Faik Kursunoglu
UK	Julian Franks
Uruguay	Rosario Soarez Netto, Pradines Svetogorsky
USA	Jonathan Macey
Venezuela	Alvaro Leal
Zimbabwe	Much A. Masunda

Note. The changes in Antidirector Rights arise from the following changes from 0 (NO) to 1 (YES) in its constituent variables:

- (i) *Proxy by Mail Allowed:* Austria (2002), Colombia (1995), Egypt (2000), Germany (1998), Israel (1999), Italy (1999), Japan (2002), Mexico (2001), Portugal (2000) and South Korea (1999).
- (ii) *Shares Not Blocked Before Meeting:* France (2002).
- (iii) *Cumulative Voting or Proportional Representation:* Italy (1998) and South Korea (2001).
- (iv) *Oppressed Minorities Mechanism:* Colombia (1995), Greece (1995), Indonesia (1995), Italy (1998) and Peru (1998).
- (v) *Preemptive Rights:* no change.
- (vi) *Percentage of Share Capital to Call an Extraordinary Shareholders' Meeting:* Hong Kong (from 10% to 5% in 2000) and Italy (from 20% to 10% in 1998).