**Is social trust a governance mechanism?**
**Evidence from dividend payouts of Chinese firms[#]**

*John Goodell[a,*], Mingsheng Li[b], Desheng Liu[c], Ying Wang[d]*

[a] *University of Akron, Akron, Ohio 44325*
[b] *Bowling Green State University, Bowling Green, Ohio 43403*
[c] *Qilu University of Technology (Shandong Academy of Sciences), Jinan* 250353*, China*
[d] *Shandong University of Finance and Economics, Jinan* 250014*, China*

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*****Corresponding author. E-mail addresses: johngoo@uakron.edu (Goodell), mli@bgsu.edu (Li), liudeshenggs@126.com (Liu), and wangying1778@163.com (Wang). Authors thank Sung C. Bae, Yugang Chen, Liuling Liu, Jing Shi, Natalya Bikmetova, Stephen Treanor, the participants of 2021 FMA (Denver) and the Financial Workshop at BGSU and Financial Seminar Series at Shandong University of Finance & Economics, and Qilu University of Technology for their comments and suggestions.
[#] Authors contribute to the work equally and they are listed alphabetically based on their last names.

# Is social trust a governance mechanism? Evidence from dividend payouts of Chinese firms


## Abstract

While prior studies show that micro-level trust within and between firms affects firm performance and innovation, it is unclear how macro-level trust, namely social trust, affects corporate decisions. Addressing this is important because micro-level trust is shaped by macrolevel processes and social norms. A growing literature finds that corporations are influenced by local social norms. Drawing from this insight and using various measures of social trust, we examine the impact of social trust on dividend payouts. We find that levels of social trust, both in terms of directly measured trust and trust inferred from concomitant levels of civic social capital, negatively impacts dividend payouts of local firms across Chinese provinces. We argue that community social trust supplies governance and plays a substitute role of dividends payouts, with a higher level of social trust engendering a lower demand for dividend payouts. This negative effect of social trust on dividend payouts is more pronounced for younger firms, firms with high growth potential, and firms in regions of less developed institutional environments. Our results have practical implications for corporate managers, politicians, regulators, and civic workers, especially in emerging markets with less-developed formal institutions and weak shareholder protection.



*Keywords*: Social trust; Social capital; Dividend payouts; Agency problems; Chinese markets

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"*Risk and interdependence are necessary conditions for trust*."

—Rousseau et al. (1998)

"*Without trust, Wall Street might as well fold up its fancy tents…If investors stop trusting the promises, financial markets can't function*."

—Former U.S. Labor Secretary Robert Reich (2008)

## 1. Introduction and motivation

A large literature shows that trust has material effects on firm performance. For example, Hughes et al. (2018) find that trust within an organization promotes workplace innovative behaviors. Buckley et al. (2009) and Thorgren and Wincent (2011) demonstrate that interorganizational trust reduces risk of betrayals and costs of negotiation and transaction. Arranz and de Arroyabe (2012) show that formal contract and relational norms and trust act as complementary governance mechanisms, affecting interorganizational performance. Holtgrave et al. (2020) find that top managers' trust in their suppliers affects how they approach conflicts with their suppliers. Hain et al. (2016) demonstrate that trust mitigates the negative effects of geographic and cultural distance. These studies are insightful; however, they are limited to the analysis of micro-level trust among entities either within or between organizations. What is less explored is how macro-level trust, namely social trust, affects corporate behaviors.

We theorize that macro-level trust influences corporate behavior, as Rousseau et al. (1998) and Hatzakis (2009) highlight that trust is a multilevel issue, requiring theory and research methods to reflect its multifaceted attributions. Similarly, Sitkin (1995) proposes that micro-level trust relations are constrained and enhanced by macro process. This is because social norms shape both the behaviors that contracting parties engage in and their beliefs regarding the intention of others (Rousseau et al., 1998; Sitkin and Stickel, 1996). Empirically, a vast literature shows that social environment generates social trust (Hasan et al., 2020), which in turn affects corporate behaviors, such as tax avoidance (Hasan et al., 2017), corporate social responsibility (CSR) activities (Hoi et al., 2018), CEO compensation (Hoi et al., 2019), and corporate innovation (Hasan et al., 2020). Cumming et al. (2020) evidence that consumers are willing to pay higher prices for the products imported from high social trust countries. Clearly, social trust is important to economic development because "virtually every commercial transaction has within itself an element of trust" (Arrow, 1972). Extensive research has demonstrated the effects of social trust on economic prosperity (Knack and Keefer, 1997; La Porta et al., 1997) and financial market development (Guiso et al., 2004, 2008; Pevzner et al., 2015; Qiu et al., 2019).

In the current study, we extend the literature on micro-level trust by investigating the effect of macro-level social trust on local firms' dividend payouts, an important decision for all corporations. Although mainstream dividend theories do not explicitly identify trust as a main determinant of dividends, the root-cause can be traced back to trust. For example, Miller and Modigiliani's (1961) dividend irrelevant theory assumes of perfect market conditions, under which trust is a non-issue (Hirschman, 1982). However, the agency theory of dividend is developed under imperfect markets (Easterbrook, 1984; Jensen, 1986; Jensen and Meckling, 1976). Under imperfect markets, trust becomes essential as Arrow (1974) posits: "*trust is a necessary social lubricant that allows individuals to come together and contract*." From a transaction cost perspective, investors must vet asymmetric information between themselves and the firm, thereby incurring transaction costs. Fukuyama (1995) notes that less trust implies a greater need for vetting. This is exacerbated in the presence of asymmetric information, with contracts being inevitably incomplete (Goergen et al., 2013; Hart and Moore, 1999). Thus, paying dividends becomes a necessarily mechanism for shareholder protection (Bank, Cheffins, and Goergen, 2009; Da Silva, Goergen, and Renneboog, 2004).

Following Gambetta (1988), who defines trust as the "subjective probability that an individual assigns to the event of a potential counterparty performing an action that is beneficial or at least not harmful to that individual,"[1] we theorize that social trust supplies governance because higher levels of social trust constrain managers' opportunistic behaviors; thereby reducing the need for dividend payouts. This view is consistent with the substitution model of La Porta et al. (2000), wherein firms compensate for lack of external governance by relinquishing cash through dividends. Similarly, Da Silva, Goergen, and Renneboog (2004) regard higher levels of dividend payouts as a firm-level governance mechanism. Goergen et al.

[1] See also Aggarwal and Goodell (2009) for the national culture dimension 'uncertainty avoidance' and a transaction-cost based argument similar to what is applied to social trust.

(2013) posit that in higher-trust environments, economic agents are less likely to be expropriated. We further disentangle this issue, proposing that social trust impacts firm-level dividend payouts through three possible channels: (1) local social norm constraints; (2) investor risk aversion and home bias; and (3) managerial awareness. Accordingly, we develop two baseline hypotheses: a *governance hypothesis*, and a *substitute hypothesis*; and two tangential hypotheses: a *growth and investment need hypothesis*, and a *heterogenous effect hypothesis*.

We empirically test our hypotheses by using a sample of listed A-shares in Chinese markets from 2010–2018. Consistent with our *governance hypothesis*, we find that local area social trust negatively affects firm dividend payouts. In economic terms, an increase of 1% in trust, measured by blood donations, reduces on average (1) the propensity of paying dividends by 10.7%, (2) dividends per share (DPS) by 0.003 RMB (Chinese currency), and (3) payout ratios by 0.33%. This is in line with La Porta et al.'s (2000) "substitute model" and Da Silva et al.'s (2004) argument. From an alternative management perspective, in higher social-trust regions, culturally astute managers perceive less governance demand by investors and less utility for supplying governance via dividend payouts.

We investigate the governance role of social trust as substitution for dividends, by comparing the negative effects of social trust on dividends between firms located in areas of low versus high market development and in weak against strong law enforcement. Results indicate that the negative effect is much stronger for firms located in areas with low-market development and weak law enforcement, consistent with our *substitute hypothesis*. More importantly, these regional factors do not substitute the negative effect of social trust on dividends. Additionally, the negative effect of social trust is more pronounced for high-growth firms and those in high sustainable-growth industries, and for firms in regions with high GDP per capita, and for young firms. Further, this negative effect is stronger when economic policy uncertainty (EPU) is high. The evidence supports our tangential hypotheses.

Our results are robust to a variety of rigorous tests, such as employing differing measures of social trust, controlling for firm characteristics, corporate governance, and industry- and year-fixed effects. We address potential endogeneity issues using government regulations on dividends as exogenous events. We also use firms' relocation events to address possible self-selection or reverse causality issues. We find that when firms move from high to low social trust regions, the mean value of DPS increases more than 127% in the following year. On the other hand, when firms move from low to high social trust regions, the mean value of DPS declines about 54%. As a supplementary test, we find that firms in low social trust areas tend to donate more to charitable causes and are more likely to engage in social and public welfare activities. Consistent with the findings of Elfenbein et al. (2012), this suggests that firms in low social trust areas use both dividends and social engagements to improve and enhance their reputation among investors and other stakeholders.

We focus on Chinese firms in this study for several empirical considerations. First, limiting our sample to one country helps control for firms maintaining cash holdings to reflect cross-national differences in economic policy uncertainties (Baker et al., 2016; Goodell et al., 2021), in governance (Goodell, 2017), and in national culture (Doney et al., 1998). Second, Davaadorj (2019) and Hasan et al. (2021) use strength of cooperative norms and density of social newtworks to measure social capital and show that social capital in U.S. counties is positively associated with dividends payouts of local firms. Differing from their studies, we use directly the commonly used measures of social trust. More importantly, as Cumming et al. (2017; 2021) highlight that well developed theories and emprical results in other countris cannot necessarily be applied to Chinese markets directly because of substantical differences in institutional and cultral enviornments. Hain, Johan, and Wang (2016) explicitly show that social trust affects investments differently in emerging markets and developed economies. La Portal et al. (2000) further indicate that proper treatment of shareholders is worth the most in countries with weak legal protections.

We contribute to the literature in several ways. First, La Porta et al. (2000) indicate that legal and institutional environments affect dividend policy. We add to this literature by showing that cultural institutions, such as social trust, provide utility to investors as governance.[2] Second, while many studies investigate how micro-level trust within and between organizations influences firm performance (Arranz

[2] We side-step the debate here of whether trust, and cultural factors generally, should be regarded as 'institutions' or 'informal institutions.'

and de Arroyabe, 2012; Buckley et al., 2009; Hatzakis, 2009; Hughes et al., 2018; Rousseau et al., 1998), our study is among few focusing specifically on how macro-level trust in local communities affects management decisions regarding dividend payouts.[3] Third, consistent with the argument of Aggarwal et al. (2016), this study has important implications not only for corporate managers and government officials but also for policy makers, as results suggest that fostering trust is vital to optimizing institutional environments.

## 2. Literature review and hypothesis development

The literature on social trust is extensive. Consequently, we limit reviews to the impact of social trust on economic performance and financial market development. Then, we discuss three possible channels for local social trust to impact firm level payouts and develop our hypotheses accordingly.

### *A. Social trust, economic performance, and financial market development*

Consideration of the role of social trust in economic development extends at least as far back as Banfield (1958) and Arrow (1972), who attribute much of the world's economic backwardness to a lack of social trust (also see Knack and Keefer, 1997). Fukuyama (1995) highlights that lower levels of social trust act as a friction as all contracts are inevitably incomplete (Goergen et al., 2013; Hart and Moore, 1999). Therefore, higher levels of social trust engender less financing and transaction costs (Aggarwal and Goodell, 2010; 2014). On the other hand, lower social trust discourages innovation and investment because of higher costs of financing and monitoring against counter party opportunistic behavior (Ahern et al., 2015; Guiso et al., 2009; Kim and Li, 2014). Indeed, a considerable portion of the literature on cultural distance largely rests on the notion that greater cultural-distance acts against trust, thereby increasing transaction costs (Goodell, 2019).

Guiso et al. (2004) find that households in high-social-capital areas are more likely to use checks, invest less in cash and more in stock, and have higher access to institutional credit. Guiso et al. (2008)

[3] A few studies also investigate local factors on dividend payouts but with different focuses. For example, Fidrmuc and Jacob (2010) focus on how the broad normative nature of culture, such as individualism, power distance, and uncertainty avoidance affects dividends. Becker et al. (2011) examine the impact of demographic variation on dividends. Shao et al. (2010) and Ucar (2016) investigate the effect of local religion on dividend payouts.

indicate that a general lack of trust affects stock market participation. Cline and Williamson (2016) find that anonymous trust inversely relates to formal self-dealing regulation, suggesting that trust substitutes for formal regulation, providing an alternative mechanism for shareholder protection. Dong et al. (2018) find that social trust is negatively associated with corporate misconduct behavior. Qiu et al. (2019) indicate that trust reduces crash risk because it lessens traders' opportunistic behavior.

*B. Possible channels and hypothesis development*

Building on this existing literature, we consider three possible channels for local social trust to impact firm-level payouts: (1) local social norm constraints; (2) investor risk aversion and home bias; and (3) managerial awareness. Regarding social norm constraints, considerable literature evidence that local social norms strongly shape corporate cultures, and managerial attitudes and decision making (Sunstein, 1996; Cialdini and Goldstein, 2004). For example, Hilary and Hui (2009) observe that local culture influences local firm risk-taking. Adhikari and Agrawal (2016) find that banks headquartered in more religious areas exhibit lower risks. Yonker (2017) shows that high-level corporate managers are either local or adopt dominant local norms. Cline and Williamson (2016) and Dong et al. (2018) document that social trust reduces corporate self-dealing and mitigates corporate misconduct. Of particular relevance to this study, Hasan, et al. (2017), and Hoi et al. (2018; 2019) evidence that local social capital enhances social trust between a firm and its transaction parities, limiting managers' opportunistic behaviors.

Regarding the second channel, we consider the role of investor risk aversion. It is foundational in finance that investors require higher returns for higher risk (Barberis et al., 2006). As for the association of risk and social trust, Guiso et al. (2008) explicitly indicate that when making investment decisions, individuals consider not only risk-return tradeoff but also the risk of being 'cheated.' In support of this, Williamson (1975) indicates that social trust mitigates exploitation risk. Das and Teng (2004) and Hong et al. (2004) find that households in communities with high levels of social trust are more likely to invest in the stock market. Goergen et al. (2013) observe a negative relation between investor and employee rights, and country trust, consistent with the need for protection being low in high social trust environment.

Similarly, social trust-based arguments often underpin explanations for investor home bias (Ivkovic and Weisbenner, 2005).

As a third channel for social trust impacting dividend payouts, we consider whether managers are not just unconsciously responsive but additionally consciously aware of local culture. Thus, management will be cognizant to optimize corporate policies, including payout policies, to be in synch with local culture (Witt and Redding, 2009). Goodell (2019) notes that the distinction between “normative institutionalism” and “intended rationality” deserves more focus as this distinction informs rational managers how to design policies and decision making to optimally conform to local cultures. Therefore, if management is aware that their investors would like more dividend payout *as governance*, they would likely do it.

Combining the three possible channels, we posit a *governance hypothesis* as follows:

**Hypothesis 1**: *For firms located in higher social trust regions, there is less demand by investors for dividends as governance because the perceived the possibility of being exploited by corporate managers is lower. Alternatively, in high-trust regions, culturally astute managers perceive less governance demand by their investors and less utility for supplying governance via payouts*.

In support of our governance hypothesis, Bank, Cheffins and Goergen (2009) argue that corporate governance is supplied by dividends. Caskey and Hanlon (2013) demonstrate that firms paying dividends are less likely to commit fraud. La Porta et al.’s (2000) substitution model suggests that dividends are paid because minority shareholders force corporate insiders to disgorge cash in environments of weak shareholder protection. Knack and Keefer (1997) report that trust can provide an imperfect *substitute* for contract enforcement. In a similar vein, we consider that social trust facilitates the enforcement of implicit contracts between managers (agents) and principals (shareholders) so that managers are more likely to carry out their fiduciary duty of maximizing shareholder wealth and are less likely to exploit shareholders (Jones, 1995). Therefore, we further propose the following *substitute hypothesis:*

**Hypothesis 2**: *The negative effect of social trust on dividends is more pronounced in areas where institutions are less developed, with weaker property-rights enforcement. This is because in these* *environments, social trust will be more valuable and so there will be a more prominent role for dividends as governance*.

Finance literature suggests that firms maintain dividend policy on par with investment decisions and growth potential (Brave et al., 2005). Thus, firms with high growth potential likely pay smaller amounts of dividends (La Porta et al., 2000). This is because such firms have more pressing needs for investment. Furthermore, researchers indicate that EPU negatively affects firm cash flows, which, in turn, influences dividends (Brav et al., 2005; Chay and Suh, 2009). Thus, we develop the following two tangential hypotheses:

**Hypothesis 3**: *The negative effect of social trust on dividends is stronger for firms that have higher growth potential* - *growth and investment need hypothesis*.

**Hypothesis 4:** *The negative effect of social trust on dividends is stronger when EPU is comparatively higher* - *heterogeneous EPU effect hypothesis*.

## 3. Social trust measures, data, and sample selection

Our primary independent variable is social trust. We initially measure social trust in four ways. *Trust1CGSS* and *Trust2CGSS* are collected from the China General Social Survey (CGSS).[4] The CGSS conducted surveys in 31 provinces in 2010–2013, 2015, and 2017. *Trust1CGSS* is a respective province's average survey response when a survey is conducted in the province. *Trust2CGSS* is the respective province proportion of respondents who selected either '4' or '5.' When surveys are not conducted in a year, we use the respective province's *CGSS* survey data from the previous year. We also use *Trust3CECI*, which is a respective province's ranking score (from 1 for the lowest to 30 for the highest) based on the China City Commercial Environment Credit Index (CECI).[5] CECI data are available for the years 2010–2012, 2015, and 2017. *Trust_B* is the ratio of blood donations in a respective province to the total blood donations of all provinces in 2004, as provided by the Chinese Society of Blood Transfusion.

[4] China General Social Survey, http://www.cnsda.org/
[5] China City Commercial Environment Credit Index, http://www.chinacei.org/

Many studies indicate that social trust remains relatively stable over short ranges of time (Uslaner, 2002; Li et al., 2017, 2019). Thus, for our main tests, we aggregate *Trust1CGSS*, *Trust2CGSS*, and *Trust3CECI* at the provincial level by computing the provincial average during the whole sample period as *Trust1_m*, *Trust2_m*, and *Trust3_m*. As blood donation, *Trust_B*, it is based on the data in 2004 since it is the only year has this data. We also develop a comprehensive measure of trust (*Trust_PCT*) for each province over the whole sample period by using the first principal component of *Trust1_m*, *Trust2_m*, and *Trust3_m*, and *Trust_B*.

Our initial sample includes all A-shares listed on Chinese stock markets for 2010–2018. We choose 2010 as the beginning of our sample period since it is the earliest time that the datasets for three of the trust measures used in this study are available. Our dependent variable is dividend payouts. We measure dividend payouts in three different ways, *DIV_dum, DPS,* and *Payout ratio*. We retrieve dividend and other firm financial data from GTA, and shareholder information from the RESSET and the CCER databases. Following the literature, we clean our sample by excluding firms in finance, banking, real estate, insurance industries, and firms with missing financial data and non-normal trading status of *ST*, *ST**, or *PT*.[6] Table 1 lists all variables with detailed definitions. Table 2 reports summary statistics of all variables in the final sample, which has 16,364 firm-year observations.

[INSERT TABLES 1 and 2 HERE]

## 4. Test methods and empirical results

### *A. Baseline regressions: The association of dividend payouts with social trust*

We use the following regression to investigate the effects of social trust on dividend payouts:

$$DIV_{i,t} = \alpha_0 + \beta Trust_i + \chi Gov_{i,t} + + \eta Others_{i,t} + Industry_i/year_t + \varepsilon_{i,t} \quad (1)$$

[6] *ST* stands for special treatment, indicating that a firm has non-normal financial situations. *ST** indicates that a firm faces the possibility of being delisted. *PT* stands for particular transfer, indicating that the firm's stock is subject to non-normal trading rules.

where the dependent variable $DIV_{i,t}$ is firm *i's* dividend in year *t*, measured by *DIV_dum*, *DPS*, and *Payout Ratio*, respectively. The primary independent variable is $Trust_{i,}$ which is measured by *Trust1_m*, *Trust2_m*, *Trust3_m*, *Trust_B*, and *Trust_PCT*. $GOV_{i,t}$ measures a firm's corporate governance, including *Top1_shr*, *Ln(1+Board)*, *IndDir*, and *CEOdum*. $Others_{i,t}$ includes other firm characteristics such as firm *Size* (total assets), *MB*, *ROA*, *LEV*, *TobinQ*, *Cash/TA*, *Volatility*, and *SOE*. We control for year- and industry-fixed effects and cluster robust standard errors at the firm level. All continuous variables are winsorized at the 1% and 99% levels to eliminate outliers and reduce data noise.

Panel A of Table 3 reports logit regression results of Equation (1). We use logit regression since the dependent variable *DIV_dum* takes a value of one or zero. The coefficients on all the trust measures are negative and significant at the 0.01 level, supporting our *governance* hypothesis. In economic terms, the coefficient on *Trust_B* is -10.70, indicating that an increase of 1% in social trust, measured by blood donations, reduces the propensity of paying dividends by 10.7%. Similarly, the coefficient on *Trust1_m* is -0.824, implying that if a province's CGSS survey rating increases by 1%, the propensity of firms paying dividends decreases by 0.82%. Among the control variables, *Size, ROA*, and *Cash/TA* are positively related to the propensity of paying dividends. We also find that state-owned enterprises (SOEs) are less likely to pay dividends. This evidence is consistent with the literature in general.

[INSERT TABLE 3 HERE]

In Panel B of Table 3, we report the results of Tobit regressions, as the dependent variable *DPS* is left-censored (Eckbo et al., 2018). The coefficients on all trust measures are negative and significant at the 0.1 or higher levels. In economic terms, the coefficient of -3.048 on *Trust_B* implies that if social trust as measured by blood donations increases by 1%, *DPS* decreases by about 0.003 RMB (3.048 x the mean value of *DPS* of 0.114).[7] In Panel C of Table 3, we report Tobit regression where the dependent variable is *Payout ratio*. The coefficients on *Trust_B, Trust1_m, Trust2_m, Trust3_m,* and *Trust_PCT* are -1.249, -0.121, -0.265, -0.002, and -0.011, respectively, with all being significant at 1%. In terms of economic

[7] The coefficients on the control variables are qualitatively similar to those in Panel A. To save space, the results are not reported but available from authors upon request.

significance, for example, if social trust, measured by *Trust_B*, increases by 1%, the payout ratio decreases by about 0.33% (-1.249 x the mean value of *Payout Ratio* of 0.262).

These baseline regression results assume that local social trust remains stable over time (Guiso et al., 2004, 2008, 2009). To provide robust verification, we use *Trust1CGSS*, *Trust2CGSS*, and *Trust3CECI*, which are time-variant, as independent variables, and re-estimate the baseline regression. Unreported results are consistent with those reported in Table 3, and the coefficients on these trust measures are negative and significant at the 0.1 or higher levels.[8]

As an additional robustness check on social trust measures, we conduct Pearson correlation tests between *Trust1CGSS*, *Trust2CGSS*, and *Trust3CECI* and the other five social trust measures aggregated at the provincial level. All these correlations are significant at 1% (Table 4). To save space, for the remainder of the tests in this paper, we limit reporting results to those corresponding to the independent variables measured by *Trust_B* and *Trust_PCT*. Using blood donations is a common way to measure social trust in the existing literature as Guiso et al. (2004) indicate that there are neither legal nor economic incentives to donate blood, motivation being driven by internal norms (also see Hasan et al., 2017; Hoi et al., 2018; 2019). As for the use of *Trust_PCT*, it captures the principal component of the four aggregated measures.

[INSERT TABLE 4 HERE]

*B. Does social trust substitute for formal institutional development?*

According to our governance hypothesis, we consider that the need to pay dividends as governance, might be less for developed institutional environments. To test this effect, we divide firms into low- and high-marketization index (MI) subgroups using Wang et al.'s (2018) provincial Marketization Index data. We report these results in Table 5. In Panel A, the coefficients on *Trust_B* for the low-MI subgroup are negative and significant at the 0.1 or more significant levels (Columns 1–3). In contrast, the high-MI subgroup's corresponding numbers are insignificant (Columns 4 and 6). Of additional importance, the

[8] To save space, these results are reported in Appendix A of online data.

magnitudes of coefficients for the low-MI subgroup are significantly larger than that of the high-MI subgroup. The results based on *Trust_PCT* (in Panel B) reveal a similar pattern.

[INSERT TABLE 5 HERE]

Another factor we investigate is the effectiveness of law enforcement as La Porta et al. (2000) suggest that the demand for dividends may be higher in countries with weaker shareholder protection because minority shareholders have little else to rely on. This notion is also consistent with our governance hypothesis. Our unreported results show that the negative effect of social trust is stronger for the weak law-enforcement subsample. More importantly, controlling for the effect of law enforcement does not remove the negative effects of greater social trust on dividend payouts.[9]

### C. *Effects of social trust on dividends based on firm and industry growth potentials and local GDP per capita*

To invest our *growth and investment need hypothesis*, we divide firms into low- (high-) growth subgroup if their sales growth rate is less (equal to or greater) than the median value of the sales growth rate of all firms each year. We then estimate the regression Equation (1) separately for the low- and high-growth subgroups. In Panel A of Table 6, the coefficient on *Trust_B* in the *DIV_*dum regression is -7.246 (significant at the 0.05 level) for the low-growth subsample (Column 1), whereas it is -13.432 (significant at the 0.01) level for the high-growth subsample (Column 4). In the *DPS* regressions, the coefficient on *Trust_B* is -0.808 (insignificant at the 0.1 level) for the low-growth group (Column 2), whereas it is -4.381 and significant at the 0.1 level for the high-growth group (Column 5). In the *Payout* regressions, the coefficient on *Trust_B* is -1.056 and significant at the 0.05 level for the low-growth group (Column 5), whereas it is -1.351 and significant at the 0.01 level for the high-growth group (Column 6). In Panel B of Table 6, trust is measured by *Trust_PCT*, with the results mostly consistent with those in Panel A. These results clearly show that the negative effect of trust on dividends exists for both the low- and high-growth firms, while it is more pronounced for high-growth companies, with more pressing needs of investment.

[9] To save space, these results are reported in *Appendix B* of online data.

Additionally, we separate firms into a low- (high-) growth industry (IndGrowth) subgroups based on the sustainable growth rate of the firm's affiliated industry. Similarly, we separate firms based on GDP per capita of firms' headquarters location. The unreported results are consistent with the results based on firms' sales growth.[10]

[INSERT TABLE 6 HERE]

*D. Effects of social trust on dividends based on firm age*

Firms at differing stages of life cycle may adopt differing dividend policies due to growing needs and cash constraints. The cash-constraint effect is expected to be more salient for young firms since these firms have more pressing needs for capital growth. Additionally, young firms may use dividends to reduce information asymmetry. We classify a firm as a younger (older) firm if its age is less than (equal to or greater than) the median age of all firms each year. We report results for these tests in Table 7. The coefficients on *Trust_B* for the young-firm subgroup are negative and significant at the 0.05 and 0.01 levels (Columns 1–3 in Panel A), whereas none of the coefficients for the older-firm subsample are significant, even at the 0.1 level (columns 4-6). In Panel B, the coefficients on *Trust_PCT* for the young subgroup are negative and significant at the 0.01 level (Columns 1–3). Although the coefficients for older firms are also negative and significant at the 0.1 or more significant levels (Columns 4–6), the coefficient magnitudes are smaller than the coefficients for the younger-firm subsample. This additional evidence confirms our hypothesis, indicating that the impact of social trust on dividends is more pronounced for younger firms.

[INSERT TABLE 7 HERE]

*E. Effects of social trust on dividends associated with economic policy uncertainty*

Literature indicates that cash flow uncertainty due to economic policy uncertainty is a significant factor affecting dividend policy (Brav et al., 2005; Chay and Suh, 2009). To test our *heterogeneous EPU*

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[10] Specifically, the coefficients on trust for the high-IndGrowth subgroup are larger in magnitude and statistically more significant than those for the low-IndGrowth subgroup, regardless of whether trust is measured by *Trust_B* or *Trust_PCT*. To save space, these results are reported in *Appendix C* of online data.
For the high-GDP subsample, the coefficients on *Trust_B* are negative and significant at the 0.01 level (Columns 4–6 in Panel A). In contrast, the corresponding coefficients for the low-GDP subgroup are insignificant at the 0.1 level (Columns 1 and 2). These results are available from *Appendix D* of online data.

*effect hypothesis*, we classify firm-year observations into low- and (high-) EPU subgroups according to whether the EPU index in a given year is less (equal to or higher) than the median value of the EPU index in all years during our sample period.[11] The coefficients on *Trust_B* are all negative, with the magnitude of the coefficients for the high-EPU subgroup being much larger than that of the coefficients for the low-EPU subgroup (Table 8, Panel A). The coefficients on *Trust_PCT* show a similar pattern (Table 8, Panel B). This evidence indicates that the negative effect of social trust on dividends is more pronounced when economic uncertainty is high because higher levels of social trust is more valuable during periods of higher economic policy uncertainty.

[INSERT TABLE 8 HERE]

## 5. Endogeneity tests: Regulatory and headquarter-location changes

### *A. Effects of social trust on dividends under different regulatory periods*

Endogeneity is always a concern and needs to be addressed. We first use a government regulatory change as an exogenous event to further investigate the negative effect of social trust on dividend payouts. One of the most important regulations in China is "*Monitoring Guideline #3 on Cash Dividend Distribution for Listed Firms*" (*Guideline #3*) issued by China Securities Regulatory Commission (CSRC) in November 2013. The primary purpose of *Guideline #3* is to force listed firms to pay dividends according to their stages of development. Thus, we investigate how social trust affects dividend payouts in pre-*Guideline #3* (2010–2013) and post-*Guideline #3* subperiods (2014–2018), reporting the results in Table 9. This result indicates that the negative relation between social trust and dividend payouts remains in all subperiods and is more pronounced after the dividend enforcement regulation.

[INSERT TABLE 9 HERE]

### B. *Does location change matter for dividend payouts?*

[11] We collect data from the China EPU Index, following Baker et al. (2016). For more detailed information, visit http://www.policyuncertainty.com/scmp_monthly.html

Another concern is self-selection, or reverse causality issues, as the clientele theory suggests that managers adopt a particular dividend policy to attract specific groups of shareholders (Allen et al., 2000; Shefrin and Statman, 1984). To further investigate this possibility, we compare firm-level dividend changes from year *t*-1 to *t*+1 for firms relocating their headquarters in year *t* because firms are unlikely to relocate just for dividend consideration. Thus, a firm's relocation of its headquarters can be treated as an exogenous event in the context of firm dividend policy.

In our sample, 85 firms changed headquarters locations in the sample period. Among these, 46 of these changed from high- to low-trust regions, and 39 firms changed from low- to high-trust regions, as measured by *Trust1_m* (Table 10). For the 46 firms moving from high- to low-trust regions in year *t*, the mean (median) value of *DPS* increased from 0.047 (0.0) RMB in year *t*-1 to 0.107 (0.060) RMB in year *t*+1, or an increase of 127.7% (0.06/0.047) in the mean value of *DPS*. In contrast, for the 39 firms that moved from low- to high-trust regions in year *t*, the mean (median) value of *DPS* declined about 53.2% (100%) from 0.096 (0.052) RMB to 0.044 (0.00) RMB (Columns 5-8). For all of the 85 firms, paired *t*-tests show that the mean value of *DPS* is about 126.7% larger when these firms were in low-trust regions than it was when they were in high-trust regions (Columns 9–12). When social trust is measured by *Trust2_m*, *Trust3_m*, and *Trust_PCT*, the results are qualitatively similar. We also investigate changes in *DIV_dum* and *Payout Ratio* and obtain similar results.[12]

[INSERT TABLE 10 HERE]

## 6. More supplementary evidence

### *A. Is social trust related to charity donations and other CSR activities?*

La Porta et al.'s (2000) substitution model also suggests that firms use dividends to establish a good reputation when legal protection of minority shareholders is weak. Elfenbein et al. (2012) indicate that firms use charity as a substitute for reputation. The CSR literature further suggests that firms can use dividends to maximize stakeholder wealth and reduce agency issues (Gallo, 2004; Bohren et al., 2012). Therefore,

[12] The unreported results are available from authors upon request.

firms located in relatively low social trust areas might use other supplemental methods such as charity donations and CSR activities to enhance reputational capital. To test this supplemental effect, we regress charity donations and other measures related to CSR on trust and other control variables.

Table 11 reports the result. In Column 1, the dependent variable is the logarithm of charity donations, the coefficient on *Trust_B* (Panel A) is insignificant, whereas the coefficient on *Trust_PCT* (Panel B) is negatively significant at the 0.01 level. This latter result indicates that firms in low trust areas tend to donate more to charities than those located in high trust areas. In Columns 2 and 3, the dependent variables are *CSR score* and the *Global Review Index* (*GRI*).[13] The coefficients on both *Trust_B* and *Trust_PCT* are negative and significant at the 0.01 level. In Columns 4–5, the dependent variables measure additional aspects of CSR, namely public goods, and work-place safety. The coefficients on both *Trust_B* and *Trust_PCT* in *Work-Safety* regressions are negative and significant at the 0.1 level. The evidence indicates that firms in low social trust areas are more likely to engage in CSR activities to improve their reputation.

[INSERT TABLE 11 HERE]

*B. Does social trust reduce agency costs?*

Our central hypothesis implicitly assumes that social trust constrains managers' opportunistic behavior. Therefore, as such, the need for paying dividends for firms located in high trust areas is less. As a final robustness test, we follow Ang et al. (2000) and use the ratio of general administrative expenses to sales (*Agency1*) and the ratio of other accounting receivables to total assets (*Agency 2*) as proxies for agency costs. If social trust constrains managers' opportunistic behavior, it would reduce agency costs. We regress these agency cost measures on our trust measures and other control variables (the same as in Table 3, Panel A). Results of this testing indicate that the coefficients on both *Trust_B* and *Trust_PCT* are negatively

[13] The number of observations for CSR, GRI, and associated regressions are small because most firms do not report CSR activities in their annual reports. We obtain CRS score from RKS Ratings, http://www.rksratings.cn/

significant at the 0.01 level regardless of whether agency costs are measured by *Agency1* or *Agency2* (Table 12). This evidence supports that social trust mitigates potential agency issues.

[INSERT TABLE 12 HERE]

## 7. Discussion and conclusions

Literature indicates that micro-level trust within and between firms affects corporate performance and that macro-level trust affects economic development and financial system. Still, limited evidence exists on how macro-level trust affects dividend policy. In our study, we focus explicitly on social trust and posit that for firms located in high social-trust regions, the need for investors to pressure firms to pay dividends is less, so is the demand of investors for dividends as governance because the perceived possibility of being exploited by corporate managers is lower. Alternatively, in high social-trust regions, culturally astute managers, perceive less governance concerns of investors and less utility for supplying governance via payouts. We find that firm-level payouts across Chinese provinces are negatively related to social trust, consistent with La Porta et al.'s (2000) 'substitution' hypothesis.

Additionally, various robustness tests show that the negative effects of social trust on dividend payouts is more pronounced for young firms, those with high growth potential, in high sustainable-growth industries, and in regions of high GDP per capita, less developed in formal institutional environments and weak property rights protections, and when economic policy uncertainty is high. Therefore, the negative relation between social trust and dividend payouts is robust to endogeneity concerns associated with a dividend clientele effect based on relocation events. We highlight that social trust across provinces of China is indeed a governance mechanism. Compared to recent papers finding a complementary role of payouts with respect to social capital, our evidence provides important new information and indicates that whether dividends and social trust are complements or substitutes is likely nuanced, depending on institutional environments Cumming et al. (2021).

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**Table 1: Variable Descriptions**

| Variable | Definition |
|---|---|
| *Div_dum* | A dummy variable that is assigned '1' if a firm pays cash dividends in year *t* and '0' otherwise. |
| *DPS* | Dividend (cash) per share measured in Chinese currency (RMB) for firm *i* in year *t*. |
| *Payout* | A firm's dividend payout ratio, computed as *DPS*/earnings per share (*EPS*) in year *t*. |
| *Trust1CGSS* | Average rating score of social trust from the *China General Social Survey* (CGSS) of a province in year *t*. The survey question is: "*Generally speaking, do you trust strangers around you*"? Respondents choose one of the five answers: (1) "*do not trust greatly*"; (2) "*do not trust*"; (3) "*neutral*"; (4) "*trust*"; and (5) "*trust greatly*". |
| *Trust2CGSS* | The proportion of respondents whose survey answer is either 4 or 5 on the CGSS survey in a province in year *t*. |
| *Trust3CECI* | Ranking (from a low of 1 to 30) based on the China City Commercial Environment Credit Index (*CECI*) of a province in year *t*. |
| *Trust_B* | The ratio of blood donations in a province to the total blood donations of all provinces in 2004. |
| *Trust1_m* | The mean value of *Trust1CGSS* of a province in the whole sample period. |
| *Trust2_m* | The mean value of *Trust2CGSS* of a province in the whole sample period. |
| *Turst3_m* | The mean value of *Trust3CECI* of a province in the whole sample period. |
| *Trust_PCT* | Principal component of *Trust1_m, Trust2_m, Trust3_m,* and *Trust_B* of a province in the whole sample period. |
| *Size* | Logarithm of a firm's total assets in year *t*. |
| *MB* | Market to book value of firm *i* in year *t.* |
| *ROA* | Return on total assets of firm *i* in year *t.* |
| *LEV* | Leverage ratio measured as debt to total assets of firm *i* in year *t.* |
| *TobinQ* | Tobin's Q of firm *i* in year *t.* |
| *Cash/TA* | Ratio of cash and cash equivalent to total assets of firm *i* in year *t.* |
| *Volatility* | Standard deviation of weekly returns of firm *i* in year *t.* |
| *Top1Holder* | The number of shares held by the largest shareholder to total number of shares outstanding of firm *i* in year *t.* |
| *Ln(1+Board)* | Logarithm of 1 + the number of board members of firm *i* in year *t.* |
| *IndDir* | The ratio of independent board members to total number of board members of firm *i* in year *t.* |
| *CEOdum* | A dummy variable that is assigned '1' if a firm's CEO is also a board of director member and '0' otherwise in year *t*. |
| *SOE* | A dummy variable assigned '1' if the controlling shareholder is either a local or state-government and '0' otherwise. |
| *Agency cost* | The ratio of other account receivables to total assets in year *t*. |

**Table 2: Summary Statistics of Main Variables**

| | N | mean | p50 | min | p25 | p75 | max | std. dev |
|---|---|---|---|---|---|---|---|---|
| *DIV_dum* | 16,364 | 0.741 | 1.000 | 0.000 | 0.000 | 1.000 | 1.000 | 0.438 |
| *DPS* | 16,347 | 0.114 | 0.052 | 0.000 | 0.000 | 0.150 | 10.999 | 0.218 |
| *Payout* | 16,364 | 0.262 | 0.205 | 0.000 | 0.000 | 0.353 | 1.833 | 0.297 |
| *Trust_B* | 16,301 | 0.032 | 0.033 | 0.008 | 0.027 | 0.039 | 0.048 | 0.009 |
| *Trust1CGSS* | 226 | 3.420 | 3.432 | 2.730 | 3.306 | 3.525 | 4.040 | 0.174 |
| *Trust2CGSS* | 226 | 0.618 | 0.625 | 0.329 | 0.571 | 0.675 | 0.865 | 0.081 |
| *Trust3CECI* | 239 | 15.444 | 15.000 | 1.000 | 8.000 | 23.000 | 31.000 | 8.648 |
| *Trust_B* | 31 | 0.033 | 0.033 | 0.008 | 0.029 | 0.040 | 0.048 | 0.010 |
| *Trust1_m* | 31 | 3.440 | 3.413 | 3.253 | 3.353 | 3.513 | 3.798 | 0.123 |
| *Trust2_m* | 31 | 0.626 | 0.619 | 0.508 | 0.593 | 0.658 | 0.769 | 0.055 |
| *Trust3_m* | 31 | 15.287 | 14.455 | 1.000 | 9.000 | 23.455 | 28.091 | 8.035 |
| *Trust_PCT* | 31 | 0.125 | 0.335 | -4.189 | -0.389 | 0.874 | 2.892 | 1.306 |
| *Size* | 16,364 | 22.117 | 21.945 | 19.289 | 21.193 | 22.857 | 26.038 | 1.291 |
| *MB* | 16,364 | 2.222 | 1.653 | 0.213 | 0.924 | 2.828 | 11.066 | 1.960 |
| *ROA* | 16,364 | 0.040 | 0.036 | -0.233 | 0.015 | 0.065 | 0.201 | 0.052 |
| *LEV* | 16,364 | 0.436 | 0.430 | 0.050 | 0.263 | 0.598 | 0.987 | 0.214 |
| *TobinQ* | 16,364 | 2.221 | 1.653 | 0.188 | 0.922 | 2.827 | 11.059 | 1.961 |
| *Cash/TA* | 16,364 | 0.042 | 0.042 | -0.190 | 0.003 | 0.084 | 0.251 | 0.072 |
| *Volatility* | 16,364 | 0.063 | 0.057 | 0.026 | 0.046 | 0.073 | 0.150 | 0.025 |
| *Top1Holder* | 16,364 | 0.355 | 0.336 | 0.087 | 0.234 | 0.458 | 0.750 | 0.151 |
| *Ln(1+Board)* | 16,364 | 2.148 | 2.197 | 1.609 | 2.079 | 2.197 | 2.708 | 0.197 |
| *IndDir* | 16,364 | 0.373 | 0.333 | 0.333 | 0.333 | 0.429 | 0.571 | 0.053 |
| *CEOdum* | 16,364 | 0.241 | 0.000 | 0.000 | 0.000 | 0.000 | 1.000 | 0.428 |
| *SOE* | 16,364 | 0.418 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 | 0.493 |

This table reports summary statistics of the main variables, which are defined in Appendix A. Note that *N*, when associated with *Trust1_m, Trust2_m, Trust3_m*, and *Trust_PCT*, indicates the number of provinces, as we compute the mean value of these variables for each province in the whole sample period. *N* associated with *Trust1CGSS, Trust2CGSS*, and *Trust3CECI* indicates province-years, since we compute trust for each province in a given year. *N* for all other variables indicates total number of firm-years.

**Table 3: Regression of Dividends on Trust Aggregated at the Provincial Level**

| *Panel A*: Dependent variable is *Div_dum* | | | | | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| *Trust_B* | -10.697*** | | | | |
| | (2.493) | | | | |
| *Trust1_m* | | -0.824*** | | | |
| | | (0.191) | | | |
| *Trust2_m* | | | -2.104*** | | |
| | | | (0.369) | | |
| *Trust3_m* | | | | -0.022*** | |
| | | | | (0.003) | |
| *Trust_PCT* | | | | | -0.099*** |
| | | | | | (0.017) |
| *Size* | 0.467*** | 0.466*** | 0.466*** | 0.455*** | 0.462*** |
| | (0.028) | (0.028) | (0.029) | (0.028) | (0.029) |
| *MB* | -0.443 | -0.431 | -0.422 | -0.444 | -0.424 |
| | (0.309) | (0.310) | (0.311) | (0.306) | (0.311) |
| *ROA* | 27.565*** | 27.319*** | 27.310*** | 27.423*** | 27.322*** |
| | (1.015) | (1.028) | (1.027) | (1.010) | (1.028) |
| *LEV* | -3.234*** | -3.319*** | -3.305*** | -3.218*** | -3.297*** |
| | (0.148) | (0.151) | (0.151) | (0.148) | (0.151) |
| *TobinQ* | 0.204 | 0.199 | 0.189 | 0.202 | 0.189 |
| | (0.309) | (0.311) | (0.311) | (0.306) | (0.311) |
| *Cash/TA* | 0.944*** | 1.029*** | 1.026*** | 0.934*** | 1.097*** |
| | (0.354) | (0.360) | (0.360) | (0.353) | (0.361) |
| *Volatility* | 0.325 | -0.056 | -0.141 | 0.203 | -0.246 |
| | (1.426) | (1.445) | (1.446) | (1.420) | (1.446) |
| *Top1_shr* | 0.866*** | 0.877*** | 0.883*** | 0.820*** | 0.871*** |
| | (0.158) | (0.160) | (0.161) | (0.157) | (0.161) |
| *Ln(1+Board)* | 0.428*** | 0.453*** | 0.452*** | 0.473*** | 0.452*** |
| | (0.134) | (0.136) | (0.136) | (0.133) | (0.136) |
| *IndDir* | -0.812* | -0.834* | -0.852* | -0.591 | -0.818* |
| | (0.464) | (0.473) | (0.474) | (0.464) | (0.474) |
| *CEOdum* | 0.236*** | 0.220*** | 0.215*** | 0.234*** | 0.220*** |
| | (0.054) | (0.055) | (0.055) | (0.054) | (0.055) |
| *SOE* | -0.348*** | -0.320*** | -0.314*** | -0.313*** | -0.334*** |
| | (0.051) | (0.051) | (0.051) | (0.050) | (0.051) |
| Constant | -9.685*** | -7.176*** | -8.678*** | -9.639*** | -9.844*** |
| | (0.681) | (0.955) | (0.729) | (0.680) | (0.694) |
| Industry/Year FE | Yes/Yes | Yes/Yes | Yes/Yes | Yes/Yes | Yes/Yes |
| Obs | 16,284 | 15,938 | 15,938 | 16,347 | 15,904 |
| Pseudo_$R^2$ | 0.273 | 0.272 | 0.273 | 0.275 | 0.273 |

**Table 3 (*continued*):**

| *Panel* B: Dependent variable is *DPS* | | | | | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) |
| *Trust_B* | -3.048* | | | | |
| | (1.808) | | | | |
| *Trust1_m* | | -0.777*** | | | |
| | | (0.205) | | | |
| *Trust2_m* | | | -1.540*** | | |
| | | | (0.347) | | |
| *Trust3_m* | | | | -0.003* | |
| | | | | (0.002) | |
| *Trust_PCT* | | | | | -0.057*** |
| | | | | | (0.014) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| *(Other control variables are the same as in Panel A and their coefficients are not reported to save space)*. | | | | | |
| Constant | -13.901*** | -11.319*** | -13.021*** | -13.927*** | -13.896*** |
| | (1.677) | (1.275) | (1.526) | (1.644) | (1.657) |
| Obs | 16,284 | 15,938 | 15,938 | 16,347 | 15,904 |
| Pseudo_$R^2$ | 0.108 | 0.107 | 0.107 | 0.108 | 0.107 |
| *Panel C*: Dependent variable is *Payout Ratio* | | | | | |
| *Trust_B* | -1.249*** | | | | |
| | (0.332) | | | | |
| *Trust1_m* | | -0.121*** | | | |
| | | (0.026) | | | |
| *Trust2_m* | | | -0.265*** | | |
| | | | (0.049) | | |
| *Trust3_m* | | | | -0.002*** | |
| | | | | (0.000) | |
| *Trust_PCT* | | | | | -0.011*** |
| | | | | | (0.002) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*(Other control variables are the same as in Panel A and their coefficients are not reported to save space)*.) | | | | | |
| Constant | -0.652*** | -0.211 | -0.461*** | -0.663*** | -0.602*** |
| | (0.091) | (0.135) | (0.099) | (0.091) | (0.092) |
| Obs | 16,284 | 15,938 | 15,938 | 16,347 | 15,904 |
| Pseudo_$R^2$ | 0.148 | 0.148 | 0.149 | 0.149 | 0.148 |

Panel A reports logit regressions as the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Panels B and C report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 4: Correlation Matrix of Different Trust Measures**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| 1. *Trust1CGSS* | 1.000 | | | | | | | |
| 2. T*rust2CGSS* | 0.935*** | 1.000 | | | | | | |
| 3. *Trust3CECI* | 0.051*** | 0.053*** | 1.000 | | | | | |
| 4. *Trust_B* | 0.132*** | 0.197*** | 0.396*** | 1.000 | | | | |
| 5. *Trust1_m* | 0.681*** | 0.679*** | 0.083*** | 0.171*** | 1.000 | | | |
| 6. *Trust2_m* | 0.665*** | 0.710*** | 0.079*** | 0.243*** | 0.967*** | 1.000 | | |
| 7. *Trust3_m* | 0.073*** | 0.087*** | 0.931*** | 0.423*** | 0.135*** | 0.133*** | 1.000 | |
| 8. *Trust_PCT* | 0.913*** | 0.936*** | 0.268*** | 0.453*** | 0.665*** | 0.692*** | 0.305*** | 1.000 |

This table reports Pearson correlations among different trust measures. *, **, and *** indicates statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 5: Regression of Dividend Payouts on Trust Based on the Marketization Index**

| | (1) *DIV_dum* | (2) *DPS* | (3) *Payout* | (4) *DIV_dum* | (5) *DPS* | (6) *Payout* |
|---|---|---|---|---|---|---|
| | Low MI | | | High MI | | |
| *Panel A*: The primary independent variable is *Trust_B* | | | | | | |
| *Trust_B* | -7.629** | -5.315* | -1.556*** | -3.998 | -1.804 | -0.667 |
| | (3.637) | (3.039) | (0.556) | (3.876) | (2.214) | (0.478) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -11.287*** | -19.201*** | -1.185*** | -7.963*** | -9.160*** | -0.108 |
| | (0.901) | (3.420) | (0.135) | (1.123) | (0.830) | (0.149) |
| *N* | 7913 | 7913 | 7913 | 8371 | 8371 | 8371 |
| Pseudo $R^2$ | 0.280 | 0.106 | 0.166 | 0.259 | 0.125 | 0.130 |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | | |
| *Trust_PCT* | -0.046* | -0.155*** | -0.012*** | -0.027 | -0.022 | -0.007* |
| | (0.027) | (0.040) | (0.004) | (0.031) | (0.019) | (0.004) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -11.412*** | -19.322*** | -1.118*** | -7.839*** | -9.128*** | -0.095 |
| | (0.925) | (3.427) | (0.137) | (1.118) | (0.826) | (0.148) |
| *N* | 7533 | 7533 | 7533 | 8371 | 8371 | 8371 |
| Pseudo $R^2$ | 0.281 | 0.106 | 0.166 | 0.259 | 0.125 | 0.130 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Columns 23 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). Firms are classified into a low- (high) MI subgroup if the province's Marketization Index (MI) of the firms' headquarters location is less (equal to or higher) than the median value of MI of all provinces in a given year. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 6: Regression of Dividend Payouts on Trust Based on Firms' Growth Potential**

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | *DIV_dum* | *DPS* | *Payout* | *DIV_dum* | *DPS* | *Payout* |
| | Low-Growth (<median growth rate) | | | High-Growth (≥median rate) | | |
| *Panel A*: The primary control variable is *Trust_B* | | | | | | |
| *Trust_B* | -7.246** | -0.808 | -1.056** | -13.432*** | -4.381* | -1.351*** |
| | (3.447) | (2.838) | (0.481) | (3.622) | (2.379) | (0.457) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -9.946*** | -14.826*** | -0.637*** | -11.903*** | -13.536*** | -0.849*** |
| | (1.026) | (2.808) | (0.137) | (1.022) | (1.711) | (0.132) |
| *N* | 8,204 | 8,204 | 8,204 | 8,080 | 8,080 | 8,080 |
| Pseudo $R^2$ | 0.294 | 0.109 | 0.162 | 0.261 | 0.109 | 0.141 |
| *Panel B*: The primary control variable is *Trust_PCT* | | | | | | |
| *Trust_PCT* | -0.081*** | -0.053*** | -0.011*** | -0.115*** | -0.058*** | -0.011*** |
| | (0.024) | (0.020) | (0.003) | (0.025) | (0.020) | (0.003) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -10.089*** | -4.715*** | -0.582*** | -11.979*** | -13.590*** | -0.787*** |
| | (1.042) | (2.781) | (0.139) | (1.040) | (1.675) | (0.133) |
| *N* | 8,018 | 8,018 | 8,018 | 7,886 | 7,886 | 7,886 |
| Pseudo $R^2$ | 0.295 | 0.108 | 0.160 | 0.260 | 0.108 | 0.142 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Columns 2–3 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). A firm is classified into low- (high) growth if its annual sales growth rate is less than (equal to or greater) the median value of sales growth rate of all firms in a given year. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 7: Regression of Dividend Payouts on Trust Based on Firms' Age**

| | (1) *DIV_dum* | (2) *DPS* | (3) *Payout* | (4) *DIV_dum* | (5) *DPS* | (6) *Payout* |
|---|---|---|---|---|---|---|
| | Young (<median Age) | | | Old (≥median age) | | |
| *Panel A*: The primary independent variable is *Trust_B* | | | | | | |
| *Trust_B* | -23.387*** | -7.060** | -1.962*** | 5.707 | -1.619 | -0.566 |
| | (3.305) | (2.894) | (0.470) | (4.057) | (2.038) | (0.471) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -12.244*** | -21.669*** | -1.241*** | -6.940*** | -6.918*** | 0.002 |
| | (0.967) | (3.592) | (0.142) | (1.150) | (0.911) | (0.129) |
| *N* | 7,588 | 7,588 | 7,588 | 8,696 | 8,696 | 8,696 |
| Pseudo $R^2$ | 0.292 | 0.116 | 0.183 | 0.276 | 0.119 | 0.117 |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | | |
| *Trust_PCT* | -0.098*** | -0.080*** | -0.012*** | -0.087*** | -0.026* | -0.008** |
| | (0.023) | (0.026) | (0.003) | (0.028) | (0.014) | (0.003) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -12.832*** | -21.874*** | -1.232*** | -6.342*** | -6.722*** | 0.094 |
| | (0.983) | (3.586) | (0.144) | (1.173) | (0.929) | (0.130) |
| *N* | 7,353 | 7,353 | 7,353 | 8,551 | 8,551 | 8,551 |
| Pseudo $R^2$ | 0.289 | 0.115 | 0.183 | 0.275 | 0.118 | 0.116 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Columns 2–3 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). A firm is classified into the young (old) subgroup if its age measured as the number of years from its foundation to a given year is less than (equal to or greater) the median value of all firms in a given year. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 8: Trust and Dividend Payouts Based on the EPU Index**

| | (1) *DIV_dum* | (2) *DPS* | (3) *Payout* | (4) *DIV_dum* | (5) *DPS* | (6) *Payout* |
|---|---|---|---|---|---|---|
| | Low - EPU | | | High - EPU | | |
| *Panel A*: The primary independent variable is *Trust_B* | | | | | | |
| *Trust_B* | -6.644** | -0.875 | -0.930** | -16.632*** | -6.609** | -1.627*** |
| | (3.144) | (2.168) | (0.435) | (4.107) | (2.948) | (0.515) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -11.784*** | -12.587*** | -0.898*** | -7.966*** | -15.111*** | -0.388*** |
| | (0.898) | (1.214) | (0.122) | (1.150) | (3.195) | (0.146) |
| *N* | 9,395 | 9,395 | 9,395 | 6,889 | 6,889 | 6,889 |
| Pseudo $R^2$ | 0.281 | 0.132 | 0.164 | 0.257 | 0.088 | 0.126 |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | | |
| *Trust_PCT* | -0.084*** | -0.049*** | -0.010*** | -0.118*** | -0.070*** | -0.011*** |
| | (0.021) | (0.016) | (0.003) | (0.030) | (0.026) | (0.004) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -11.724*** | -2.455*** | -0.821*** | -8.557*** | -15.322*** | -0.377** |
| | (0.919) | (1.181) | (0.124) | (1.166) | (3.184) | (0.147) |
| *N* | 9,142 | 9,142 | 9,142 | 6,762 | 6,762 | 6,762 |
| Pseudo $R^2$ | 0.281 | 0.131 | 0.163 | 0.257 | 0.087 | 0.125 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Columns 2–3 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). Observations are classified into low- (high) EPU if the economic policy uncertainty (EPU) index in a given year is less (equal to or higher) than the median value of the EPU index in all years. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 9: Regression of Dividend Payouts on Trust in Different Dividend Regulation Periods**

| | (1) *DIV_dum* | (2) *DPS* | (3) *Payout* | (4) *DIV_dum* | (5) *DPS* | (6) *Payout* |
|---|---|---|---|---|---|---|
| | Pre *Guideline #3* | | | Post *Guideline #3* | | |
| *Panel A*: The primary independent variable is *Trust_B* | | | | | | |
| *Trust_B* | -8.526$^{**}$ | -0.086 | -1.196$^{**}$ | -12.557$^{***}$ | -5.377$^{**}$ | -1.307$^{***}$ |
| | (3.672) | (2.477) | (0.481) | (3.448) | (2.540) | (0.458) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -12.395$^{***}$ | -3.756$^{***}$ | -0.948$^{***}$ | -7.541$^{***}$ | -13.908$^{***}$ | -0.409$^{***}$ |
| | (1.049) | (1.613) | (0.138) | (1.004) | (2.616) | (0.131) |
| *N* | 7,284 | 7,284 | 7,284 | 9,000 | 9,000 | 9,000 |
| Pseudo $R^2$ | 0.295 | 0.132 | 0.179 | 0.261 | 0.096 | 0.128 |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | | |
| *Trust_PCT* | -0.082$^{***}$ | -0.051$^{**}$ | -0.012$^{***}$ | -0.109$^{***}$ | -0.055$^{***}$ | -0.009$^{***}$ |
| | (0.024) | (0.021) | (0.003) | (0.026) | (0.019) | (0.003) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | | |
| Constant | -2.623$^{***}$ | -13.660$^{***}$ | -0.939$^{***}$ | -7.836$^{***}$ | -14.075$^{***}$ | -0.338$^{**}$ |
| | (1.064) | (1.566) | (0.140) | (1.026) | (2.606) | (0.133) |
| *N* | 7,111 | 7,111 | 7,111 | 8,793 | 8,793 | 8,793 |
| Pseudo $R^2$ | 0.294 | 0.132 | 0.177 | 0.260 | 0.095 | 0.127 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1; if a firm pays dividends in year *t* and '0' otherwise. Columns 2–3 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). In November 2013, the CSRC issued dividend Guideline #3 to enforce listed firms to pay dividends. Thus, observations during 2010–2013 and 2014–2018 are classified as pre- (post-) *Guideline #3* subperiods. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. $^{*}$, $^{**}$, and $^{***}$ indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 10: Firms' Dividend Payout Changes Associated with Headquarters Location Changes**

| | | Location change from high-trust to low-trust | | | | Location change from low-trust to high-trust | | | | Difference in DPS high-trust vs low-trust | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | High | Low | Difference | T-stat/ Z-stat | Low | High | Difference | T-stat/ Z-stat | High | Low | Difference | T-stat/ Z-stat |
| Trust Measures | | (1) | (2) | (3)=(2)-(1) | （4） | (5) | (6) | (7)=(6)-(5) | （8） | (9) | (10) | (11)=(10)-(9) | （12） |
| Trust1_m | mean | 0.047 | 0.107 | 0.060** | 2.192 | 0.096 | 0.044 | -0.052** | -2.642 | 0.045 | 0.102 | 0.057*** | 3.261 |
| | median | 0.000 | 0.060 | 0.060*** | 2.585 | 0.052 | 0.000 | -0.052** | -2.339 | 0.000 | 0.060 | 0.060*** | 3.492 |
| | *N* | *46* | *46* | | | *39* | *39* | | | *85* | *85* | | |
| Trust2_m | mean | 0.045 | 0.099 | 0.054** | 2.258 | 0.107 | 0.046 | -0.061** | -2.433 | 0.045 | 0.102 | 0.057*** | 3.261 |
| | median | 0.000 | 0.060 | 0.060*** | 2.815 | 0.051 | 0.000 | -0.051** | -2.091 | 0.000 | 0.060 | 0.060*** | 3.492 |
| | *N* | *51* | *51* | | | *34* | *34* | | | *85* | *85* | | |
| Trust4_m | mean | 0.046 | 0.102 | 0.056** | 2.617 | 0.102 | 0.043 | -0.059* | -1.946 | 0.045 | 0.102 | 0.057*** | 3.261 |
| | median | 0.000 | 0.060 | 0.060*** | 2.825 | 0.020 | 0.000 | 0.020** | -2.075 | 0.000 | 0.060 | 0.060*** | 3.492 |
| | *N* | *60* | *60* | | | *25* | *25* | | | *85* | *85* | | |
| Trust_B | mean | 0.042 | 0.100 | 0.058** | 2.372 | 0.105 | 0.050 | -0.055** | -2.246 | 0.045 | 0.102 | 0.057*** | 3.261 |
| | median | 0.000 | 0.052 | 0.052*** | 2.621 | 0.060 | 0.000 | -0.060** | -2.269 | 0.000 | 0.060 | 0.060*** | 3.492 |
| | *N* | *49* | *49* | | | *36* | *36* | | | *85* | *85* | | |
| Trust_PCT | mean | 0.057 | 0.089 | 0.033 | 1.460 | 0.117 | 0.032 | -0.085*** | -3.176 | 0.045 | 0.102 | 0.057*** | 3.261 |
| | median | 0.000 | 0.056 | 0.056** | 2.046 | 0.060 | 0.000 | -0.060*** | -2.907 | 0.000 | 0.060 | 0.060*** | 3.492 |
| | *N* | *46* | *46* | | | *39* | *39* | | | *85* | *85* | | |

This table reports a firm's DPS change from year *t*-1 to *t*+1 when the firm changed its headquarters location in year *t*. Columns 1–3 report DPS information for firms that changed their headquarters location from high-trust to low-trust regions. Columns 5–7 report DPS information for firms that changed headquarters location from low-trust to high-trust regions. Columns 9–11 report paired-differences in DPS in high-trust and low-trust regions of all firms that experienced location changes. Columns 4, 8, and 12 report *t*-stat (*z*-stat) for the difference in mean (median) values of DPS. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 11: Regression of Public Goods and CSR Factors on Trust**

| | (1) *Donation* | (2) *CSR* | (3) *GRI* | (4) *Public Goods* | (5) *Work-Safety* |
|---|---|---|---|---|---|
| *Panel A*: The primary independent variable is *Trust_B* | | | | | |
| *Trust_B* | -16.629 | -118.162*** | -18.503*** | -9.651 | -8.726* |
| | (11.128) | (17.578) | (4.767) | (10.021) | (4.960) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | |
| Constant | -91.850*** | -67.889*** | -24.251*** | -3.127 | -2.221* |
| | (2.975) | (4.798) | (1.443) | (2.441) | (1.251) |
| *N* | 16,284 | 4,327 | 4,038 | 3,965 | 4,093 |
| Pseudo $R^2$ | | | | | |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | |
| *Trust_PCT* | -0.391*** | -1.166*** | -0.151*** | -0.106 | -0.068* |
| | (0.078) | (0.134) | (0.038) | (0.071) | (0.036) |
| Industry/Year FE | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | | |
| Constant | -91.491*** | -73.826*** | -25.356*** | -3.637 | -2.589** |
| | (3.046) | (4.877) | (1.433) | (2.297) | (1.261) |
| *N* | 15,904 | 4,231 | 3,944 | 3,871 | 3,999 |
| Pseudo $R^2$ | 0.128 | 0.051 | 0.209 | 0.126 | 0.117 |

Columns 1 and 2 report Tobit regressions since the dependent variables *Donation* and *CSR* are left-censored (Eckbo et al., 2018). Columns 3–5 report Probit regressions, *Donation* is the logarithm of one plus donation amount in year *t*. The *CSR* captures a firm's CSR activities and is obtained from the RKS. *GRI* equals one when a firm consults the GRI's Sustainability Reporting Guidelines and discloses it in its CSR report in year *t* and zero otherwise. *Public Goods* equals one when a firm discloses information about its public good and social welfare activities in year *t* and zero otherwise. *Work-Safety* equals one when a firm covers work safety in its CSR report in year *t* and zero otherwise. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Table 12: Regression of Agency costs on Trust**

| | (1) Agency1 | (2) Agency2 | (3) Agency1 | (4) Agency2 |
|---|---|---|---|---|
| *Trust_B* | -0.638*** | -0.055*** | | |
| | (0.104) | (0.019) | | |
| *Trust_PCT* | | | -0.003*** | -0.001*** |
| | | | (0.001) | (0.000) |
| (*Other control variables are the same as in Table 3A and their coefficients are not reported to save space.*) | | | | |
| Constant | 0.312*** | 0.024*** | 0.298*** | 0.015** |
| | (0.026) | (0.006) | (0.026) | (0.006) |
| *Industry fixed effect* | *Yes* | *Yes* | *Yes* | *Yes* |
| *Year fixed effect* | *Yes* | *Yes* | *Yes* | *Yes* |
| *Obs* | 16,175 | 16,281 | 15,795 | 15,901 |
| Adj. $R^2$ | 0.300 | 0.121 | 0.293 | 0.121 |

The dependent variable, *Agency1*, in Columns 1 and 3, is the ratio of general administrative expenses to sales, and the dependent variable, *Agency2*, in Columns 2 and 4 is the ratio of other receivables to total assets. Both *Agency1* and *Agency2* are used as proxies for agency costs (Ang et al., 2010). All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. $^{*}$, $^{**}$, and $^{***}$ indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Appendix A: Regression of Dividends on Trust Aggregated at the Province-Year Level**

| *Panel A*: Dependent variable is *Div_dum* | | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| *Trust1CGSS* | -0.539*** | | |
| | (0.174) | | |
| *Trust2CGSS* | | -1.365*** | |
| | | (0.307) | |
| *Trust3CECI* | | | -0.018*** |
| | | | (0.003) |
| *Size* | 0.466*** | 0.467*** | 0.458*** |
| | (0.028) | (0.029) | (0.028) |
| *MB* | -0.437 | -0.430 | -0.454 |
| | (0.310) | (0.311) | (0.306) |
| *ROA* | 27.323*** | 27.310*** | 27.509*** |
| | (1.027) | (1.026) | (1.016) |
| *LEV* | -3.323*** | -3.319*** | -3.231*** |
| | (0.151) | (0.151) | (0.149) |
| *TobinQ* | 0.206 | 0.198 | 0.216 |
| | (0.311) | (0.311) | (0.307) |
| *Cash/TA* | 1.037*** | 1.045*** | 0.977*** |
| | (0.360) | (0.360) | (0.355) |
| *Volatility* | -0.023 | -0.124 | 0.152 |
| | (1.445) | (1.445) | (1.425) |
| *Top1Holder* | 0.882*** | 0.884*** | 0.831*** |
| | (0.160) | (0.160) | (0.158) |
| *Ln(1+Board)* | 0.449*** | 0.449*** | 0.454*** |
| | (0.136) | (0.136) | (0.134) |
| *IndDir* | -0.805* | -0.819* | -0.666 |
| | (0.472) | (0.473) | (0.465) |
| *CEOdum* | 0.227*** | 0.223*** | 0.237*** |
| | (0.055) | (0.055) | (0.054) |
| *SOE* | -0.328*** | -0.324*** | -0.324*** |
| | (0.051) | (0.051) | (0.051) |
| Constant | -8.163*** | -9.148*** | -9.723*** |
| | (0.917) | (0.719) | (0.682) |
| Industry/Year | *Yes/Yes* | *Yes/Yes* | *Yes/Yes* |
| Obs | 15,938 | 15,938 | 16,237 |
| Pseudo $R^2$ | 0.272 | 0.272 | 0.275 |

**Appendix A** *(continued):*

| *Panel B*: Dependent variable is *DPS* | | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| *Trust1CGSS* | -0.583*** | | |
| | (0.173) | | |
| *Trust2CGSS* | | -1.098*** | |
| | | (0.269) | |
| *Trust3CECI* | | | -0.004* |
| | | | (0.002) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | |
| Constant | -11.969*** | -13.276*** | -13.933*** |
| | (1.479) | (1.585) | (1.666) |
| Obs | 15,938 | 15,938 | 16,237 |
| Pseudo_$R^2$ | 0.107 | 0.107 | 0.108 |

| *Panel C*: Dependent variable is *Payout Ratio* | | | |
|---|---|---|---|
| *Trust1CGSS* | -0.078*** | | |
| | (0.025) | | |
| *Trust2CGSS* | | -0.155*** | |
| | | (0.041) | |
| *Trust3CECI* | | | -0.002*** |
| | | | (0.000) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | |
| Constant | -0.361*** | -0.529*** | -0.650*** |
| | (0.130) | (0.097) | (0.091) |
| Obs | 15,938 | 15,938 | 16,237 |
| Pseudo $R^2$ | 0.148 | 0.148 | 0.149 |

Panel A reports logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Panels B and C report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Appendix B: Regression of Dividend Payouts on Trust Based on Law Enforcement**

| | (1)<br>*DIV_dum* | (2)<br>*DPS* | (3)<br>*Payout* | (4)<br>*DIV_dum* | (5)<br>*DPS* | (6)<br>*Payout* |
|---|---|---|---|---|---|---|
| | Weak law enforcement | | | Strong law enforcement | | |
| *Panel A*: The primary independent variable is *Trust_B* | | | | | | |
| Trust_B | -5.801* | -5.067* | -1.899*** | -3.486* | -1.151 | -1.193* |
| | (4.312) | (2.961) | (0.639) | (3.418) | (3.060) | (0.446) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | | | | |
| Constant | -11.895*** | -12.889*** | -0.948*** | -7.455*** | -14.226*** | -0.283** |
| | (0.960) | (1.334) | (0.132) | (0.989) | (2.814) | (0.128) |
| *N* | 8544 | 8544 | 8544 | 7740 | 7740 | 7740 |
| Pseudo $R^2$ | 0.277 | 0.137 | 0.150 | 0.275 | 0.092 | 0.155 |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | | |
| Trust_PCT | -0.092*** | -0.058** | -0.012*** | -0.089*** | -0.052** | -0.008** |
| | (0.023) | (0.022) | (0.003) | (0.028) | (0.021) | (0.004) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | | | | |
| Constant | -11.889*** | -13.181*** | -0.914*** | -7.729*** | -14.031*** | -0.260** |
| | (0.969) | (1.329) | (0.133) | (1.005) | (2.770) | (0.130) |
| *N* | 8290 | 8290 | 8290 | 7614 | 7614 | 7614 |
| Pseudo $R^2$ | 0.279 | 0.137 | 0.150 | 0.272 | 0.090 | 0.154 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Columns 2–3 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). Firms are classified into a strong (weak) law enforcement group if the ratio of number of patent infringement disputes filed in courts to the total number of patents granted in a province is less (equal to or greater) than the median value of all provinces in a year. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Appendix C: Regression of Dividend Payouts on Trust Based on Industry Growth**

| | (1) *DIV_dum* | (2) *DPS* | (3) *Payout* | (4) *DIV_dum* | (5) *DPS* | (6) *Payout* |
|---|---|---|---|---|---|---|
| | Low - IndGrowth | | | High - IndGrowth | | |
| *Panel A*: The primary independent variable is *Trust_B* | | | | | | |
| Trust_B | -7.201* | -0.808* | -0.856* | -13.319*** | -5.544** | -1.582*** |
| | (3.760) | (2.838) | (0.513) | (3.353) | (2.208) | (0.436) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | | | | |
| Constant | -9.769*** | -16.694*** | -0.683*** | -11.131*** | -11.838*** | -0.750*** |
| | (1.101) | (3.316) | (0.143) | (0.939) | (1.336) | (0.127) |
| *N* | 6,929 | 6,929 | 6,929 | 9,355 | 9,355 | 9,355 |
| Pseudo $R^2$ | 0.267 | 0.097 | 0.142 | 0.285 | 0.122 | 0.159 |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | | |
| *Trust_PCT* | -0.075*** | -0.038* | -0.007** | -0.113*** | -0.070*** | -0.014*** |
| | (0.026) | (0.021) | (0.004) | (0.023) | (0.019) | (0.003) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | | | | |
| Constant | -9.983*** | -16.725*** | -0.656*** | -11.233*** | -11.775*** | -0.681*** |
| | (1.122) | (3.284) | (0.145) | (0.956) | (1.304) | (0.128) |
| *N* | 6,762 | 6,762 | 6,762 | 9,142 | 9,142 | 9,142 |
| Pseudo $R^2$ | 0.269 | 0.096 | 0.142 | 0.285 | 0.121 | 0.159 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Columns 2–3 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). A firm is classified as low- (high-) IndGrowth if its affiliated industry's sustainable growth rate is less (equal to or higher) than the median value of all industries in a given year. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. *, **, and *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

**Appendix D: Regression of Dividend Payouts on Trust Based on GDP Per Capita**

| | (1)<br>*DIV_dum* | (2)<br>*DPS* | (3)<br>*Payout* | (4)<br>*DIV_dum* | (5)<br>*DPS* | (6)<br>*Payout* |
|---|---|---|---|---|---|---|
| | Low GDP(<median) | | | High PerGDP(>median ) | | |
| *Panel A*: The primary independent variable is *Trust_B* | | | | | | |
| *Trust_B* | -4.349 | -0.640 | $-0.886^{*}$ | $-12.784^{***}$ | $-8.672^{***}$ | $-2.610^{***}$ |
| | (3.830) | (2.162) | (0.486) | (3.839) | (3.089) | (0.583) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | | | | |
| Constant | $-7.639^{***}$ | $-7.863^{***}$ | -0.173 | $-11.178^{***}$ | $-18.928^{***}$ | $-0.936^{***}$ |
| | (1.132) | (0.798) | (0.151) | (0.879) | (3.028) | (0.125) |
| *N* | 7090 | 7090 | 7090 | 9194 | 9194 | 9194 |
| Pseudo $R^2$ | 0.261 | 0.128 | 0.136 | 0.281 | 0.106 | 0.162 |
| *Panel B*: The primary independent variable is *Trust_PCT* | | | | | | |
| *Trust_PCT* | $-0.065^{*}$ | -0.012 | $-0.009^{**}$ | $-0.118^{***}$ | $-0.107^{***}$ | $-0.016^{***}$ |
| | (0.036) | (0.021) | (0.004) | (0.021) | (0.025) | (0.003) |
| *(Other control variables are the same as in Table 3A and their coefficients are not reported to save space. We also control for industry- and year-fixed effects.)* | | | | | | |
| Constant | $-7.450^{***}$ | $-7.862^{***}$ | -0.148 | $-11.380^{***}$ | $-19.159^{***}$ | $-0.887^{***}$ |
| | (1.128) | (0.796) | (0.151) | (0.898) | (3.048) | (0.126) |
| *N* | 7072 | 7072 | 7072 | 8832 | 8832 | 8832 |
| Pseudo $R^2$ | 0.261 | 0.128 | 0.136 | 0.283 | 0.105 | 0.162 |

Columns 1 and 4 report logit regressions since the dependent, *DIV_dum*, is assigned '1' if a firm pays dividends in year *t* and '0' otherwise. Columns 2–3 and 5–6 report Tobit regressions since dependent variables *DPS* and *Payout_ratio* are left-censored (Eckbo et al., 2018). Firms are classified into a low- (high) GDP subgroup if the province's GDP per capita of the firms' headquarters location is less (equal to or higher) than the median value of GDP per capita of all provinces in a given year. All continuous control variables are winsorized at 1% and 99%. Robust standard errors are clustered at the firm level and reported in parentheses. $^{*}$, $^{**}$, and $^{***}$ indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.