

International Payout Policy and Societal Trust

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Abstract

This paper explores how trust affects managerial payout decisions and investor reactions to payout announcements. Dividend initiations and open market share repurchases create implicit commitments to continue paying dividends and execute share buybacks. We hypothesize that investors' reaction to these announcements depend on their perception of the likelihood of managers honoring these commitments, which varies with their trust levels. We find that stock returns surrounding payout announcements are higher in countries that have higher levels of societal trust, and the effect of trust appears stronger for repurchase announcements. We also find that levels of trust are positively associated with the propensity to pay and negatively associated with dividend levels. These results suggest managers conform to cultural norms of expected behavior in initiating dividends, but recognize trust can be adversely impacted by future dividend cuts, and so they tend payout lower levels.

1. Introduction

Topics related to dividends and share repurchases occupy a prominent place in the corporate finance literature. A recent strand of this research suggests that the implications of well-known payout theories may be altered by culture's effect on the way individuals perceive the issues underlying these theories. For example, Shao, Kwok, and Guedhami (2010, p. 1391) write "dividend policy may be determined not only by an *objective assessment* of the severity of agency and asymmetric information problems within a firm, but also by management's and investor's *subjective perceptions* of these problems, which hinge on their national culture". Culture is defined as a set of norms, beliefs, shared values, and expected behaviors that serves as guiding principles in people's lives (e.g., Hofstede (1980) and Schwartz (1994)). We use a global sample of firms to explore how one aspect of culture – societal trust – affects both investors' reactions to payout announcements and firms' payout choices. Despite the large body of work on payout policy, the effect of trust in this area has been largely overlooked. This motivates our study.

Our first task is to assess the effect trust has on investor reactions – as measured by market-adjusted returns – to a firm's decision to initiate a dividend for the first time and/or announce a share repurchase plan. Societal trust is part of culture and may affect investor reactions because it is associated with the probability that a counterparty will fulfill implicit or explicit obligations (e.g., Dasgupta (1988), Fukuyama (1995), Ahern et al. (2015), and Wei and Zhang (2016)). Prior studies suggest that investors view a firm's initial dividend announcement as an implicit commitment to continue paying dividends at regular intervals for the foreseeable future (e.g., Lintner (1956) and Brav et al. (2005)).¹ Open market share repurchase announcements may represent more of an implicit commitment compared to dividends because managers are not obligated to purchase shares after

¹ We do not analyze reactions to "special" dividend announcements because they are generally considered one-time distributions.

publicly announcing a stock buyback (Stephens and Weisbach (1998)).² Our results show that investors in higher trust countries react more strongly to dividend initiations and repurchase announcements compared to those in lower trust countries, and that the difference in reactions to repurchases is larger than to dividends. These results are consistent with the notion that investors with higher trust levels place a higher probability on managers honoring the implicit commitments created when payout policies are announced.

Our second task is to analyze how trust affects the propensity to initiate a dividend and dividend levels. Trust may affect the likelihood of managers initiating a dividend because it is associated with social capital and the expectations that individuals will conform to a certain set of behaviors. Guiso, Sapienza and Zingales (2004) write that “trust is the equilibrium outcome of a society where non-legal mechanism force people to behave cooperatively” and Woolcock (1998) defines social capital as the “information, trust, and norms of reciprocity inhering in one's social networks”. Our results show that managers of firms headquartered in countries where individuals have higher trust levels are more likely to initiate dividends compared to those in lower trust countries, but that the level of dividends (i.e., payout ratios) contingent on a nonzero payment is lower in high trust countries compared to low trust countries. One way to interpret these results is that managers are cognizant of the behaviors expected of them by investors with regards to dividends and thus are more likely to pay, but managers payout lower levels to limit the possibility of having to cut dividends later to protect their social capital and/or trustworthiness.

Our paper adds to the emerging literature that examines how societal trust impacts economic and financial outcomes. Trust influences firm size (La Porta et al. (1996)); promotes economic growth (Knack and Keefer (1997) and Temple and Johnson (1998)); affects investment (Zak and Knack (2001) and

² We do not analyze Dutch auction repurchases and tender offers because they require a firm commitment to repurchase if certain conditions are met.

Bottazzi et al. (2011)); stimulates financial development and stock market participation (Guiso et al. (2004) and Guiso et al. (2008)); merger activity (Ahern et al. (2015)); firm performance (Lins, Servaes, and Tamayo (2017)), the cost of equity (Ferris, Javakhadze, and Rajkovic (2017)), and reaction to earnings announcements (Pevzner, Xie, and Xin (2015)). Our analysis of trust and payout policy provides evidence that trust matters in payout demand and supply decisions.

Our paper contributes to international studies on payout policy. Much of the prior research exploits differences in stakeholder rights and how these differences can help us learn whether payout policy is the result of a substitute for formal institutions or an outcome of strong institutions (e.g., see La Porta et al. (2000) and Ferris et al. (2009) for dividend policy and shareholder rights; Haw et al. (2011) for repurchases and shareholder rights; and Brockman and Unlu (2009) dividends and creditor rights). This study differs in that we investigate how the cultural differences in trust across countries affects various aspects related to payout while controlling for formal institutional differences.

We are not the first to study culture's effect on payout policy. Prior research shows that various cultural attributes identified by social psychologists such as Hofstede (1980) and Schwartz (1994) are associated with propensity to pay dividends, dividend levels, and dividend smoothing. For example, Fidrmuc and Jacob (2010) find that dividend payout ratios are higher in countries that score high on Hofstede's individualism index, low on his uncertainty avoidance index, and low on his power distance index. Shao, Kwok, and Guedhami (2010) find that dividend payout ratios are positively associated with Schwartz's conservatism index and negatively associated with his mastery index. Khambata and Liu (2005) investigate dividend policy in 14 Asian countries to find that dividend payout ratios, and the likelihood of paying dividends, is lower in countries that score higher on Hofstede's cultural dimensions of uncertainty avoidance and long-term orientation. Bae, Chang and Kang (2012) find that firms pay lower dividends in countries that score higher on Hofstede's indexes of uncertainty avoidance, masculinity, and long-term orientation. Javakhadze, Ferris and Sen (2014) find that managers in firms in

countries with higher levels of individualism, masculinity, uncertainty avoidance, and long-term orientation tend to smooth dividends more, while managers in countries with high power distance smooth dividends less.

Our study differs from these and other papers in several ways. First, prior research focuses on how culture affects the managerial decisions related to dividends (i.e., the supply side of dividends) while ignoring how investors perceive the payout decisions (i.e., the demand side of dividends). Our findings suggest that one measure of culture – societal trust – influences investors' share price reactions around payout announcements begins to fill this gap in the literature and adds to the research on the valuation consequences of payout policy decisions (e.g., Asquith and Mullins (1983)).

Second, prior research focuses on exclusively on dividends; while we also empirically investigate culture's effect of repurchases as well, an increasingly important component of payout policy around the world (e.g., Andrioso and Lafer (2015)). Our results show that trust plays a significant role in the way investors react to repurchase announcements and exploits the differences between dividends and repurchases as a form of payout to aid our understanding of what affects investors' reactions of these forms of payout.

Third, the prior research largely ignores the effect of trust on payout policy despite its theoretical link with supply and demand decisions related to payout. For example, Gambetta (2000) writes that trust "is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both before he can monitor such action...and in a context in which it affects his own action". This definition fits neatly with various aspects of our inquiry, such as how the supply and demand decisions of payout interact. In this sense, our paper paints a more complete picture of the managers' and investors' perception of payout policy as it relates to trust.

We became aware of a working paper by Kelly (2014) that explores the relationship between trust and payout policy. In a sample of 2,000 Dutch households, he finds that less trusting households invest more of their portfolio in equities that pay dividends compared to high trusting households. Kelly (2014) also finds that dividend-paying firms are valued more highly in countries with lower trust levels, and that as trust increases within regions of the U.S., firms become more likely to stop paying dividends.

Our study has several significant differences from Kelly (2014). First, we study investor reactions to dividend initiations and repurchase announcements while he studies relative valuations (i.e., market-to-book ratios) of dividend payers and non-payers across countries. By examining reactions to payout announcements, we relate dividend demand and trust in a setting where it is easier to identify the specific event leading to the investors' revaluation of shares.

Second, our theoretical arguments behind trust and payout differ. Kelly (2014) positions his working paper as a test of the agency theory of dividends where investors with lower trust prefer dividends and value them more highly because the distribution of cash alleviates concerns of managerial expropriation of assets. Our argument is that trust matters in the way investors perceive managers' likelihood of honoring the implicit commitment created by payout announcements. In robustness checks, we find that the effect of trust on investor reactions is no different in countries likely to have a high degree of agency problems compared to those likely to have lower agency problems. This provides evidence that agency issues are not the driving force behind the relationship of trust and investor demand for dividends.

Our paper proceeds as follows. Section 2 develops the hypotheses. Section 3 proposes our methodology. Section 4 has results. Section 5 concludes.

2. Hypotheses

2.1 Investor Reactions to Payout Announcements

Trust is defined as the subjective probability individuals attribute to the possibility of the counterparty performing an action that is not harmful to that individual (Gambetta (1988)), the possibility of being cheated (Guiso, Sapienza, and Zingales (2008)), the expectation that a counterparty will fulfill the obligations agreed upon (Dasgupta (1988) and Fukuyama (1995)), the dependence on another to fulfill an implicit or explicit obligation (Ahern et al., (2015)), or the mental heuristic that measures the propensity that implicit commitments will be completed (Wei and Zhang (2016)).

Managers have discretion over payout policy decisions in most countries around the world. When managers initiate a dividend investors may expect them to continue for the foreseeable future (e.g., Lintner (1956) and Brav et al. (2005)).³ Open market share repurchase announcements represent more of an implicit commitment because managers are not obligated to purchase shares even after publicly announcing a stock buyback (Stephens and Weisbach (1998)).⁴ Because of the nonbinding features of dividends and share repurchases, we expect that investors' reactions to payout policy announcements are positively associated with trust levels.

H1: Investors with higher trust levels react more strongly to dividend initiations and open market share repurchase announcements compared to investors with lower trust levels.

H2: The effect of trust on investor reactions is greater for repurchase announcements than dividend announcements.

Our argument above is that trust is important because of the implicit nature of payout policy. However, investor reactions to payout policy announcements may be related to the information content

³ We separate regular dividends from "special" dividends because the latter are generally considered one-time distributions. However, we assume the dividend stickiness tends to hold internationally.

⁴ We separate open market share repurchases from Dutch auction repurchases and tender offers as the latter two methods do require a firm commitment to repurchase if certain conditions are met.

contained within payout announcements. Several theoretical models assert that dividends and share repurchases can effectively signal information to the market (for dividends, see Bhattacharya (1979), Miller and Rock, (1985), Kumar (1988), Allen, Bernardo, and Welch (2000), and Guttman, Kadan, and Kandel (2010); for repurchases, see Vermalen (1984), Ofer and Thakor (1987), Persons (1997), and Bhattacharya and Dittmar (2003)). In a different setting, Pevzner, Xie, and Xin (2015) show that investors in countries with higher levels of trust react more strongly to earnings announcements compared to those in lower trust countries. Thus, investors in high trust countries may perceive the information content in payout choices as more credible and react to them with greater intensity.

H3: The effect of trust on investors' reaction to payout policy announcements is greater when information asymmetry is higher.

The agency theory of Jensen and Meckling (1976) also suggests that trust may affect investors' reaction to payout announcements. Dividends can reduce agency problems between managers and shareholders (e.g., Easterbrook (1984)) and controlling vs. minority shareholders (e.g., La Porta et al. (2000)) by committing management to distribute cash at regular intervals, which reduces the free cash flow problem (e.g., Jensen (1986)) and allows for more frequent monitoring (Easterbrook (1984)). Share repurchases can also address agency problems (e.g., Jensen (1986), Nohel and Tarhan (1998), Dittmar (2000)). It may be the case that investors in high trust countries perceive management's commitment to alleviating agency issues as more credible and react with more intensity to payout announcements.

H4: The effect of trust on investors' reaction to payout policy announcements is greater when agency problems are likely to be more prevalent.

2.2 Dividend Initiations and Dividend Levels

The effect of trust on the likelihood of initiating a dividend and dividend levels is ambiguous. It may be the case that in individuals have high trust levels are less concerned about many of the issues dividends have been offered to resolve, such as agency problems and information asymmetry, and thus

managers are less likely to initiate a dividend. Alternatively, economists note that trust is linked with social capital and by not paying dividends managers may endanger this crucial component of culture by not conforming to societal expectations. If true, managers in high trust societies may be more likely to initiate a dividend. In terms of dividend levels, managers may pay higher levels to conform with investor expectations, or they may pay lower levels to limit the possibility of having to cut the dividend in the future, which would endanger their social capital / trustworthiness. We state our hypotheses in null form.

H5: Trust affects the likelihood of a dividend initiation.

H6: Trust affects the level of dividends.

3. Data and Methodology

3.1 Sample

Table 1 contains information on the countries in our sample and the number of dividend and repurchase announcements. We also include the average trust level for each country for ease of reference. The sample of initial dividend announcements is found in the Compustat Global daily database and spans 1985-2016. We find 4,860 initial dividend announcements for which we have return data, but only 2,022 announcements with the trust data available from the World Value Surveys and our controls.⁵ The sample used in the study of repurchase announcements spans from January 1999 to October 2016. Following Manconi, Peyer and Vermaelen (2014), the starting year of 1999 is selected because by 1998 most countries had lifted any restriction on firms buying back their own shares.⁶ The sample construction process begins with collecting all non-US share repurchase announcements from the Thomson SDC Platinum database. We focus our study on: a) open market share repurchases, as they

⁵ We eliminate Chinese firms from our sample because of the discussion in Qiao and Ying (2001) finding that Chinese firms are seldom bound to sustained dividend policy.

⁶ Kim, Schremper, and Varaiya (2005) provide an overview of international open market buyback regulation.

are most of the buybacks around the world; b) firms aiming to buyback less than 50% of their shares to ignore companies aiming to go private; c) non-financial and non-utility industry firms by dropping SIC codes from 6000 to 6999 and 4899 to 4999 and; d) countries with companies initializing at least 25 buyback announcements across the sample period. Our final dataset consists of 2,787 buyback announcements, of which 2,027 include data for our controls.

Table 2 and 3 contain more detailed summary statistics on our dependent and independent variables. We discuss some variable definitions below and have them in Appendix 1. We incorporate all price and accounting information using Compustat Global daily and annual databases into the dividend and repurchase data. The country level controls include measures of investor protection, information environment, and legal origin. As our proxy for investor protection we use the anti-self-dealing index (Anti-Self-Deal) created by Djankov et al. (2008). From La Porta, Lopez-de-Silanes and Shleifer (2006) we obtain the Disclosure Requirement index (Disclose) which considers a country's mandate of the delivery of a prospectus to shareholders in advance of the company issuing securities. This index focuses on disclosures of five areas: insiders' compensation, insider ownership, large shareholder ownership, contracts not falling into the firm's main course of business, and related party transactions. Following Ferris, Sen and Unlu (2009), we control for a country being a common law or civil law society.

We control for a variety of firm level characteristics throughout our four analyses following mainly Pevzner, et al. (2015), Manconi, et al (2014), Denis and Osobov (2008) and Javakhadze, et al (2014). We translate these firm controls into US dollars where appropriate. We control for firm size, measured as the logarithm of the market value of equity (Size) or the logarithm of total assets (LnAssets). Firm leverage (Leverage) is measured as a firm's total liabilities divided by total assets. Growth in sales (SalesGrowth) is the logarithm of sales growth over the previous year. Profitability is measured as EBIT scaled by total assets (EBIT) or return on assets (ROA). Cash scaled by total assets (Cash) is the firm's cash to total assets at the time of announcement since a general relation between cash and paying

dividends has been shown in prior literature. Retained earnings to total equity (RETE) to control for the life cycle hypothesis. Div-to-price (dividend per share/price per share) is the size of the announced dividend. Percentage sought (% Sought) is the number of shares that the firm announces to repurchase as a proportion of the amount of shares outstanding. Investment opportunities are measured as annual percentage change in total assets (AssetGrowth) or market value of total capital to total assets (TCTA).

3.2 Methodology

Our initial empirical specification includes our proxy for trust as an independent variable in a model predicting the market reaction to a global sample of firm's announcing a dividend initiation or an open market share repurchase plan. We follow other recent papers in the finance and economics literature that use transformed responses to the World Values Survey (WVS) question "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" (e.g., Pevzner et al. (2015)). This proxy provides a measure of generalized interpersonal trust.⁷

To test hypotheses 1 and 2, we estimate the model as follows:

$$Market\ Reaction_i = a_0 + a_1 * Trust + \sum_2^k a_i * Control_i + e_i \quad (1)$$

In this model, Market Reaction is the return of the stock around the firm's announcement of an initial dividend or an open market repurchase (the equation is estimated separately for each type of payout decision). The measure of market reaction is the day -1 to +1 cumulative market-adjusted return⁸, where day 0 is the announcement day of the initial dividend. In each of the subsequent models, Market Reaction is measured in way. Trust is a measure of the societal level of trust in response to the World Value Survey (WVS) at the country level and is calculated the same for each model below unless otherwise explained.

⁷ In unreported results, we also proxy trust of those people more likely to participate in financial markets (Guiso et al. (2008) and trust in corporations (Pevzner et al. (2015) and find qualitatively comparable results.

⁸ We also use market model returns to find qualitatively similar results.

To test hypotheses 3 and 4, that trust affects investors' reactions through information asymmetry and agency problems, we include interaction terms for these variables with trust while controlling for other factors that may affect investors' reaction to payout announcements.

$$\begin{aligned} \text{Market Reaction}_i &= a_0 + a_1 * \text{Trust} + a_2 * \text{Trust} * \text{Information Asymmetry} \\ &+ a_3 * \text{Information Asymmetry} + \sum_4^k a_i * \text{Control}_i + e_i \end{aligned} \quad (2)$$

$$\begin{aligned} \text{Market Reaction}_i &= a_0 + a_1 * \text{Trust} + a_2 * \text{Trust} * \text{Agency Conflict} \\ &+ a_3 * \text{Agency Conflict} + \sum_4^k a_i * \text{Control}_i + e_i \end{aligned} \quad (3)$$

In model 2, Information Asymmetry is an indicator variable that measures the information environment of the country in which the firm is headquartered. The coefficient of interest, a_2 , will be positive if trust is a more important part of the market reaction when firms are associated with higher levels of information asymmetry. In model 3, Agency Conflict is measured as the anti-self dealing index discussed earlier. The coefficient of interest, a_2 , will be positive if trust is a more important part of the market reaction when firms are associated with higher levels of agency problems.

To test hypothesis 5, we estimate a logit model:

$$\text{Dividend Payer}_i = a_0 + a_1 * \text{Trust} + \sum_4^k a_i * \text{Control}_i + e_i \quad (4)$$

Dividend payer is an indicator variable taking the value of 1 if a firm initiated a dividend and 0 otherwise. We also run a second model using former payer as a dependent variable that takes a value of 1 if a firm paid a dividend in time t-1 and did not pay a dividend in time t (i.e. dividend stopped) to consider this implicit commitment of dividend announcements.

To test hypothesis 6, we estimate the model:

$$\text{Dividend Level}_i = a_0 + a_1 * \text{Trust} + \sum_4^k a_i * \text{Control}_i + e_i \quad (5)$$

In this model, dividend levels are measured by dividends as a portion of sales (dividend/sales), or dividends as a proportion to the book value of assets (dividend/total assets), or dividend to earnings (dividend/net income) following Fidrmuc and Jacob (2010) and Shao et al. (2010).

We estimate all tests with year- and industry- fixed effects and cluster by country when appropriate as guided by Petersen (2009). All continuous variables are winsorized at the 1st and 99th percentiles to reduce the influence of outliers. Variables exhibiting considerable skewness are addressed by taking the natural logarithm (i.e. the market value of equity, total assets, etc.).

4. Results

Table 4 presents our results for reactions to dividend announcements. In column 1 we present that results without controls and column 2 contains the results with controls. In both models, the coefficient of Trust is positive and significant which provides evidence that investors react more strongly to dividend initiations as trust levels increase. In economic terms, a one standard deviation increase in trust level (12%) is associated with a .41% (.03444*.12) higher three-day market-adjusted return.

Table 5 presents our results for reactions to open market share repurchase announcements. In column 1 we present that results without controls and column 2 contains the results with controls. In both models, the coefficient of Trust is positive and significant which provides evidence that investors react more strongly to repurchase announcements as trust levels increase. In economic terms, a one standard deviation increase in trust level (16%) is associated with a 1.4% (.0863*.16) higher three-day market-adjusted return.

While not a formal test, the nearly one percentage point difference in 3-day market adjusted share price returns of repurchase vs. dividend initiations for a one standard deviation increase in trust level suggests that trust is relatively more important in repurchases, with is consistent with hypothesis 3.

Table 6 contains our tests of hypotheses 4 and 5 where we investigate whether the effect of trust on reactions documented above relates to the information content of dividends or agency-related explanations of dividends. These tests can help distinguish whether trust's effect relates to the implicitness embedded in the initiation of a dividend payout, or if trust works through the theoretical channels often attributed to the motivation of firms paying dividends.

In column 1, we interact trust with our proxy for high information asymmetry and find that the interaction between trust and high information asymmetry is not significant, while trust on its own remains significant. This suggests that trust's effect on dividend initiation share price changes is not related to their information content.

In column 2, trust is interacted with our proxy for investor protection. The coefficient of trust is positive and significant while the interaction of trust and low investor protection is negative and significant. The coefficient on the interaction term is the opposite of what would be predicted by agency theory and suggests that in weaker investor protection environments higher trust is associated with marginally lower announcements reactions.

Overall, our results are consistent with trust affecting investors' perception of the likelihood of managers honoring the implicit commitments created by payout announcements, and not trust acting as a conduit to faster information impeding or agency stuff.

Tables 7 and 8 contain our results on trust's effect on the propensity to initiate a dividend and on dividend levels. In column 1 of Table 7, we find a positive and significant coefficient on trust of 1.502. This means that in higher trust countries managers are more likely to initiate a dividend. In column 2, we find a negative and significant coefficient of trust in the regression with former payer; therefore, firms in countries with higher levels of trust are less likely to stop paying a dividend once they started, thus honoring the implicit commitment associated with dividends.

In table 8, we show that by both measures of dividend levels that there is an inverse relationship between trust and dividend levels. One way to interpret the results in tables 7 and 8 is that managers are cognizant of the behaviors expected of them by investors with regards to dividends and thus are more likely to pay and continue to pay, but managers payout lower levels to limit the possibility of having to cut dividends later to protect their social capital or trust of their investors.

5. Conclusion

Trust affects a wide variety of economic and financial outcomes. In this paper, we examine the effect of trust on various aspects related to payout policy, which has been largely overlooked despite the recent progress in identifying how cultural attributes affect payout decisions. Dividend initiations and open market share repurchases create implicit commitments to continue paying dividends and execute share buybacks. We find that stock returns surrounding payout announcements are higher in countries that have higher levels of societal trust, and the effect of trust appears stronger for repurchase announcements. Thus, trust is one associated measure of investor demand for payout.

We also find that levels of trust are positively associated with the propensity to pay, negatively associated with stopping dividend payment once begun, and negatively associated with dividend levels. These results suggest managers conform to cultural norms of expected behavior in initiating dividends, but recognize trust can be adversely impacted by future dividend cuts, and so they tend pay lower levels.

Our research complements prior studies relating various attributes of culture to payout decisions. We specifically contribute by being the first to examine trust's effects on certain aspects of payout policy, including payout demand and the propensity to initiate. Our results may be useful to global corporate managers when setting their payout policies.

Table 1: Basic Summary Stats

This table shows the number of dividend announcements and repurchase announcements for countries that have participated in the WVS survey at least once. The Trust variable shows the average level of trust across survey waves by country.

Country	Number of Dividend Announcements	Number of Repurchase Announcements	Trust (Average by country, for brevity)
ARG	30	6	0.1974
AUS	265	161	0.4871
BGR	8	NA/0	0.1938
BRA	63	39	0.0786
CHE	33	14	0.4181
CHL	30	2	0.1751
COL	6	1	0.0751
DEU	246	64	0.3606
ECU	1	NA/0	0.0715
EGY	39	2	0.2373
ESP	47	31	0.2565
EST	5	1	0.35
FIN	31	10	0.5409
FRA	76	42	0.1858
GBR	294	53	0.2955
GHA	3	NA/0	0.0496
HKG	32	45	0.4537
HRV	2	NA/0	0.041
HUN	4	3	0.2246
IDN	35	17	0.4029
IND	808	86	0.2843
ISR	21	4	0.2285
ITA	40	23	0.2747
JOR	37	NA/0	0.2112
JPN	1003	1669	0.3826
MEX	31	27	0.2654
MYS	133	129	0.0873
NLD	25	11	0.4956
NOR	41	13	0.7149
NZL	20	5	0.5191
PAK	98	NA/0	0.2248
PHL	36	12	0.0506
POL	144	31	0.2024
RUS	45	3	0.2548
SGP	99	4	0.3072
SWE	112	43	0.6271
THA	54	36	0.384
TUR	113	9	0.1091
TWN	440	190	0.2989
UKR	3	NA/0	0.2333
VNM	84	1	0.509
ZAF	223	23	0.1321
Total	4860	2787	0.3734

Table 2: Dividend Announcement summary statistics

Country	Market Reaction	Trust	MVequity	MB	Leverage	RETE	Cash	Anti- Self- Deal	SMCGDP	DivPrice	Trading Volume
ARG	-0.0008	0.1974	961.8355	1.4042	0.1889	0.2043	0.1069	0.3400	16.4320	0.0537	0.0020
AUS	0.0397	0.4871	366.5066	1.7135	0.1341	-0.1070	0.2207	0.7600	102.2544	0.0282	0.0058
BGR	-0.0136	0.1938	111.2730	2.6818	0.1846	0.7970	0.1012		20.8386	0.0379	0.0001
BRA	0.0065	0.0786	1317.2040	1.5081	0.2114	0.1045	0.2090	0.2700	56.4570	0.0192	0.0022
CHE	0.0420	0.4181	837.3480	1.3996	0.1916	0.3142	0.1390	0.2700	213.4763	0.0558	0.0067
CHL	0.0073	0.1751	644.3721	1.1800	0.2812	0.1329	0.1071	0.6300	102.5025	0.0245	0.0012
COL	0.0158	0.0751	149.3596	0.7146	0.2793	0.0936	0.0395	0.5700	53.3134	0.0118	0.0022
DEU	0.0224	0.3606	482.3283	1.3127	0.1534	0.1734	0.2162	0.2800	40.0174	0.0498	0.0045
ECU	0.0000	0.0715	557.1359					0.0800		0.0732	
EGY	0.0082	0.2373	544.9436	1.0752	0.2284	0.3241	0.1245	0.2000	41.8467	0.1260	0.0028
ESP	0.0034	0.2565	1871.5440	1.9513	0.2332	0.1573	0.1249	0.3700	104.3714	0.0347	0.0040
EST	0.0278	0.3500	216.3978	0.8166	0.2291	0.2724	0.1178			0.1410	0.0004
FIN	0.0092	0.5409	570.3829	1.2589	0.1971	0.3109	0.1827	0.4600	48.6078	0.0424	0.0079
FRA	0.0264	0.1858	652.9066	1.2504	0.1749	0.1545	0.1901	0.3800	80.8542	0.0341	0.0048
GBR	0.0207	0.2955	665.6036	2.0416	0.1684	0.2113	0.1686		122.4825	0.0124	0.0091
GHA	-0.0402	0.0496	67.1667	1.3407	0.0170	0.5847	0.2451	0.6700	8.4963	0.0570	
HKG	0.0195	0.4537	1007.3460	1.0828	0.1770	0.3397	0.2809	0.9600	1013.0660	0.0559	0.0093
HRV	-0.1014	0.0410	66.2588	1.1498	0.0087	0.1075	0.2845	0.5700		0.0233	0.0001
HUN	-0.0030	0.2246	2241.0440	1.8358	0.2545	0.5675	0.1074	0.1800		0.0132	0.0083
IDN	-0.0096	0.4029	296.8812	1.2703	0.2731	0.1548	0.1569	0.6500	28.3853	0.0285	0.0061
IND	0.0065	0.2843	197.3101	1.3079	0.2813	0.4633	0.0868	0.5800	73.1709	0.0448	0.0040
ISR	-0.0083	0.2285	174.0324	1.0682	0.1834	0.0109	0.3546	0.7300	56.4038	0.0955	0.0014
ITA	0.0127	0.2747	1092.9670	1.3333	0.2247	0.2572	0.0854	0.4200	40.3822	0.0291	0.0045
JOR	0.0111	0.2112	54.7159	1.0371	0.1768	0.1835	0.0769	0.1600	146.0892	0.0568	0.0043
JPN	-0.0006	0.3826	366.9345	1.5759	0.1941	0.4419	0.2596	0.5000	76.0166	0.0526	0.0046
MEX	0.0020	0.2654	1409.1760	1.0443	0.2714	0.5199	0.0800	0.1700	26.5037	0.0646	0.0016
MYS	0.0097	0.0873	386.4611	1.2230	0.1892	0.1985	0.1943	0.9500	137.3753	0.0482	0.0038
NLD	0.0202	0.4956	1130.6990	1.6688	0.1891	-0.0833	0.2001	0.2000	82.9618	0.0224	0.0054
NOR	0.0054	0.7149	705.9253	1.2376	0.2654	0.4749	0.1731	0.4200	55.6327	0.0707	0.0062
NZL	0.0397	0.5191	885.8360	2.0266	0.2122	0.1545	0.0681	0.9500	33.3650	0.0224	0.0023
PAK	0.0133	0.2248	39.6127	0.6795	0.3070	0.3360	0.0630	0.4100	18.0535	0.1036	0.0071
PHL	0.0069	0.0506	484.8718	1.2675	0.1859	0.3000	0.1820	0.2200		0.0665	0.0014
POL	0.0085	0.2024	180.7118	1.3358	0.1366	0.2882	0.1234	0.2900	29.1489	0.0501	0.0017
RUS	-0.0026	0.2548	1138.9380	1.1391	0.2485	0.4105	0.0958	0.4400	38.7513	0.1611	0.0007
SGP	0.0176	0.3072	144.6705	1.0302	0.1672	0.2371	0.2139	1.0000	214.1060	0.0412	0.0064
SWE	0.0192	0.6271	236.4196	1.7046	0.1296	0.2903	0.1800	0.3300	83.8870	0.0436	0.0109
THA	0.0145	0.3840	176.8051	1.3948	0.2639	0.2466	0.1202	0.8100	74.8562	0.0676	0.0121
TUR	0.0124	0.1091	331.9680	1.2679	0.1691	0.1467	0.1189	0.4300	25.8010	0.0662	0.0142
TWN	0.0030	0.2989	341.4695	1.4252	0.1891	0.1236	0.2255	0.5600		0.0339	0.0095
UKR	0.0018	0.2333	418.2480	0.4328	0.1110	0.9102	0.1041			0.1022	0.0001
VNM	0.0313	0.5090	48.8395	0.9915	0.2197	0.2018	0.1618		9.5639	0.0735	0.0080
ZAF	0.0323	0.1321	705.7870	1.0816	0.1434	0.1855	0.1516		183.0613	0.0367	0.0046
Total	0.0073	0.3734	463.0599	1.5838	0.1951	0.2612	0.1992	0.5880	78.5691	0.0448	0.0087

Table 3: Repurchase Announcement summary statistics

Country	Market Reaction	Trust	MVequity	MB	Leverage	RETE	Cash	Anti-Self-Deal	SMCGDP	Trading Volume
ARG	0.0308	0.1969	3506.6350	0.8705	0.1748	0.2760	0.1183	0.3400	11.4402	0.0125
AUS	0.0504	0.4879	897.5739	1.3186	0.1284	0.2600	0.2359	0.7600	103.3474	0.0065
BRA	0.0072	0.0776	1086.4210	1.1579	0.3222	0.0153	0.1817	0.2700	41.4578	0.0059
CHE	0.0254	0.4473	6132.4260	1.8032	0.1158	0.7555	0.1843	0.2700	230.3265	0.0078
CHL	-0.0473	0.1741	311.7667	1.4339	0.2588	0.2965	0.0246	0.6300	100.6126	0.0001
COL	-0.0134	0.0410	303.1626	1.2997		0.1157		0.5700	60.0138	0.0108
DEU	0.0250	0.3667	1827.7310	1.0378	0.1566	0.2505	0.2096	0.2800	46.2637	0.0066
EGY	0.0948	0.1839	8170.4480	1.7001	0.5046	0.7662	0.0963	0.2000	52.8062	0.0020
ESP	0.0192	0.2452	5320.9410	1.2560	0.2195	0.2687	0.1406	0.3700	97.4991	0.0137
EST	0.0235	0.3849	158.7048	1.8178	0.0006	0.3341	0.3298			0.0004
FIN	0.0090	0.5396	436.7889	1.2887	0.1890	0.3945	0.0863	0.4600	115.6016	0.0031
FRA	0.0183	0.1858	1774.8470	1.2891	0.1772	0.0425	0.1561	0.3800	81.8019	0.0037
GBR	0.0274	0.2946	4743.5210	1.2958	0.1782	0.2495	0.1527		129.4443	0.0135
HKG	0.0140	0.4034	1515.9690	0.7944	0.1624	0.1860	0.2452	0.9600	593.5061	0.0046
HUN	0.0010	0.2428	3713.8790	1.4220	0.1719	0.2982	0.1135	0.1800	28.9482	0.0027
IDN	0.0018	0.4037	1600.8940	0.9595	0.1879	0.5792	0.1763	0.6500	23.1116	0.0060
IND	0.0245	0.3138	631.4754	1.2061	0.2020	0.4998	0.1103	0.5800	64.6815	0.0114
ISR	0.1045	0.2285	1527.8440	1.2694	0.2105	0.0244	0.3600	0.7300	51.3069	0.0024
ITA	0.0176	0.2747	2391.9670	0.9449	0.2586	0.3205	0.0937	0.4200	28.9652	0.0060
JPN	0.0265	0.3835	763.3951	0.7400	0.1912	0.4765	0.2012	0.5000	70.4307	0.0040
MEX	0.0041	0.1650	2039.9570	1.1915	0.2126	0.4797	0.1234	0.1700	30.5824	0.0025
MYS	0.0061	0.0878	94.9102	0.9527	0.1952	0.2088	0.1532	0.9500	133.4345	0.0024
NLD	0.0354	0.4872	6396.0410	1.2344	0.2146	0.1871	0.1389	0.2000	87.4345	0.0036
NOR	-0.0144	0.7298	604.9492	1.0882	0.2192	0.5471	0.2277	0.4200	52.6244	0.0113
NZL	0.0804	0.5124	926.1625	0.9612	0.4037	0.3114	0.0723	0.9500	29.6000	0.0012
PHL	0.0247	0.0589	1050.9430	1.0135	0.1902	0.4763	0.1821	0.2200		0.0022
POL	0.0204	0.2197	184.8393	0.9011	0.1890	0.1854	0.1206	0.2900	29.2571	0.0021
RUS	0.0316	0.2748	11325.4000	0.6440	0.4072	0.0654	0.0248	0.4400	53.1052	0.0004
SGP	0.0086	0.2052	663.0778	0.9540	0.1897	0.2939	0.1101	1.0000	181.9726	0.0018
SWE	-0.0176	0.6344	1800.3550	1.4782	0.0967	0.3249	0.1611	0.3300		0.0041
THA	0.0405	0.3747	345.8592	1.0276	0.1915	0.3905	0.1373	0.8100	63.9274	0.0107
TUR	0.0319	0.1178	106.9528	0.7468	0.1900	0.2233	0.1058	0.4300	30.5994	0.0303
TWN	0.0240	0.2886	144.0047	1.0167	0.1913	0.1151	0.2588	0.5600		0.0078
VNM	-0.0562	0.5090	4.8948	0.4468	0.0000	0.1710	0.6093		9.5639	0.0224
ZAF	0.0263	0.1497	681.4834	0.9507	0.1437	0.4209	0.1970		219.6940	0.0052
Total	0.0252	0.3555	985.5945	0.8936	0.1878	0.3587	0.1951	0.5344	77.6000	0.0053

Table 4: Dividend Reaction

This table reports results for the regression containing the 3 day (-1 to +1) Market Reaction as the dependent variable around the first dividend announcement (day 0) and the country level measure of Trust as the independent variable of interest. All accounting variables are winsorized at the 1% and 99% levels. T-statistics are in parentheses with ***, **, and * representing significance at the 1%, 5% and 10% levels.

	(1) Market Reaction	(2) Market Reaction
Trust	0.0314*** (2.66)	0.0344*** (2.90)
Size		-0.00155 (-1.57)
MB		-0.00209 (-1.63)
Leverage		-0.0125 (-1.42)
RETE		-0.00881* (-1.72)
Cash		0.00522 (0.44)
CommonLaw		0.0125** (2.30)
SMCGDP		-0.0151 (-1.21)
Div-to-price		-0.000000433 (-0.02)
Anti-Self-Deal		0.0154 (0.76)
Trading Volume		0.403* (1.80)
Intercept	-0.00720 (-0.64)	0.0178 (1.26)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Obs	2022	2022
adj. R-sq	0.025	0.035

Table 5: Repurchase Reaction

This table reports results for the regression containing the 3 day (-1 to +1) Market Reaction as the dependent variable around the first repurchase announcement (day 0) and the country level measure of Trust as the independent variable of interest. All accounting variables are winsorized at the 1% and 99% levels. T-statistics are in parentheses with ***, **, and * representing significance at the 1%, 5% and 10% levels.

	(1) <u>Market Reaction</u>	(2) <u>Market Reaction</u>
Trust	0.0303** (2.25)	0.0863*** (4.72)
Size		-0.00303*** (-2.87)
MB		-0.00698** (-2.07)
Leverage		0.0223* (1.87)
RETE		-0.00322 (-0.77)
Cash		0.0415*** (2.68)
% Sought		0.000665* (1.94)
CommonLaw		0.00196 (0.2)
Div Level		0.15 (1.34)
Trading Volume		0.489** (2.44)
SMCGDP		0.0000834 (1.23)
Anti-Self-Deal		-0.00435 (-0.23)
Intercept	0.0175** (2.23)	0.0029 (0.17)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Obs	2765	2027
adj. R-sq	0.012	0.051

Table 6: Asymmetric Information and Agency Problem Tests

This table reports results for the regression containing the 3 day (-1 to +1) Market Reaction as the dependent variable around the first dividend announcement (day 0) and the country level measure of Trust, a low disclosure requirement dummy (proxy for investor protection), a low anti-self-dealing dummy (proxy for investor protection), and their respective interactions as the independent variables of interest. All accounting variables are winsorized at the 1% and 99% levels. T-statistics are in parentheses with ***, **, and * representing significance at the 1%, 5% and 10% levels.

	(1) Market Reaction	(2) Market Reaction
Trust	0.0514** (2.36)	0.0477** (2.54)
DisclosureDummy	0.0188 (1.41)	
Trust*DisclosureDummy	-0.0347 (-1.34)	
ASDIdummy		0.0416*** (3.71)
Trust*ASDIdummy		-0.0463* (-1.96)
Size	-0.00192 (-1.56)	-0.00128 (-1.12)
MB	-0.00199* (-1.86)	-0.000714 (-0.81)
Leverage	-0.0106 (-0.91)	-0.00217 (-0.23)
RETE	-0.00878 (-1.39)	-0.00751 (-1.30)
Cash	-0.000461 (-0.03)	0.00349 (0.41)
CommonLaw	0.0124** (2.15)	0.0342*** (5.34)
Trading Volume	0.394 (1.47)	0.319*** (4.10)
SMCGDP	-0.00000647 (-0.29)	-0.00000536 (-0.25)
DivPrice	0.0205 (1.32)	-0.000569 (-0.04)
Intercept	0.00537 (0.47)	-0.0423** (-2.75)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Obs	1908	1975
adj. R-sq	0.038	0.038

Table 7: Dividend Propensity

This table reports results for the logit regressions with dependent variables of *DivPayer* (paid a dividend in time t) and *FormerPayer* (paid no dividend in year t, but did pay in t-1). The country level measure of Trust is the independent variable of interest. All accounting variables are winsorized at the 1% and 99% levels. T-statistics are in parentheses with ***, **, and * representing significance at the 1%, 5% and 10% levels.

	(1) DivPayer	(2) FormerPayer
Trust	1.502*** (40.49)	-0.348*** (-5.36)
RETE	0.731*** (84.03)	0.160*** (19.46)
LnAssets	0.258*** (89.21)	0.162*** (29.07)
AssetGrowth	-0.106*** (-18.66)	-0.277*** (-12.49)
EBIT	9.658*** (128.96)	1.465*** (15.73)
TCTA	-0.395*** (-72.93)	-0.125*** (-12.87)
Intercept	-1.908*** (-93.78)	-2.631*** (-70.75)
Obs	246275	119820

Table 8: Dividend Levels

This table reports results for the regression containing the ratio of *Dividends to Sales* and *Dividends to Assets* as the dependent variables as the proxy for the firm dividend level. The country level measure of Trust is the independent variable of interest. All accounting variables are winsorized at the 1% and 99% levels. T-statistics are in parentheses with ***, **, and * representing significance at the 1%, 5% and 10% levels.

	(1) Dividends to Sales	(2) Dividends to Assets
Trust	-0.0475*** (-22.31)	-0.0284*** (-35.68)
Leverage	-0.0215*** (-16.76)	-0.0137*** (-25.94)
LnAssets	0.000861*** (6.51)	-0.000593*** (-11.65)
LnSalesGrowth	-0.00886*** (-7.45)	-0.00109*** (-4.43)
ROA	0.109*** (18.47)	0.106*** (29.17)
RETE	-0.00143*** (-5.07)	-0.000221 (-1.53)
SMCGDP	0.0000844*** (10.94)	0.0000470*** (20.07)
Cash	0.0196*** (8.30)	0.00358*** (4.63)
Firm Age	-0.000225*** (-6.44)	-0.0000886*** (-7.19)
Anti-Self-Deal	0.0113*** (6.42)	positive***
Intercept	0.0196*** (8.90)	0.0243*** (15.91)
Industry FE	Yes	Yes
Year FE	Yes	Yes
Obs	84809	97037
adj. R-sq	0.150	0.276

Appendix 1: Variable Definitions

Trust	Country level average trust level per survey wave
Size	Natural log of the market value of equity
MB	Market value to book value of equity for each firm
Leverage	Debt to total assets for each firm
RETE	Retained earnings to total equity
Cash	Cash to total assets
CommonLaw	Dummy equal to 1 if country is of common law origin
SMCGDP	Stock market capitalization as a ratio to GDP
Div-to-price	Dividend announcement level as a proportion of share price on the announcement date
Anti-Self-Deal	Anti-Self-Dealing index score
Trading Volume	Average trading volume as a proportion of shares outstanding
% Sought	The repurchase announcement percentage of shares outstanding sought in buyback.
Div Level	The current level of dividend, calculated as dividend for the year divided by total assets
LnAssets	Natural log of total assets
LnSalesGrowth	Natural log of sales growth from t-1 to t
ROA	Return on Assets
Firm Age	Number of years listed in Compustat Global
AssetGrowth	Natural log of asset growth from t-1 to t
EBIT	EBIT as a ratio to total assets

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