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Trust and corporate social responsibility: International evidence

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ABSTRACT

This letter investigates the association between social trust and corporate social responsibility. Using a sample comprising firms operating in 32 countries during the period from 2004 to 2019, we provide evidence highlighting social trust as a factor that can explain cross-country variations in corporate social responsibility activities. Our results extend the research examining the determinants of CSR by showing that informal institutions such as trust play a crucial role in shaping corporate CSR practices. Our findings are robust to controlling for a set of firm-level and country-level control variables, to employing alternative econometric methodologies, and to using various CSR proxies.

1. Introduction

Social Trust refers to the degree to which individuals in a society believe that others will act in a reliable, honest, and cooperative manner, based on commonly shared norms and values. It involves the expectation that others will not exploit vulnerabilities or engage in behavior that is harmful to the common good (Bradach and Eccles, 1989). Sapienza and Zingales (2012, p. 124) consider trust as “the expectation that another person (or institution) will perform actions that are beneficial, or at least not detrimental, to us regardless of our capacity to monitor those actions...so that we will consider cooperating with him [the institution]”. Aggregated up to the country-level, trust constitutes an important dimension of a country’s political culture. Prior research has demonstrated the importance of trust from a macroeconomic perspective including, higher economic growth (Putnam, 1993; Fukuyama, 1995; La Porta et al., 1997), increased capital market participation (Guiso et al., 2008), and more bilateral foreign direct investments (Bottazzi et al., 2016). At the firm level, Pevzner et al. (2015) state that investors in high-trust countries assign a lower probability to the likelihood that managers will behave in an opportunistic way. Consistently, a growing amount of research documents that trust mitigates agency and information asymmetry problems, leading to better corporate decisions related to investments (Fonseka et al., 2021; Knetsch and Salzmann, 2022), financing (Wu et al., 2014), financial reporting (Pevzner et al., 2015), and tax planning (Xia et al., 2017), among other.

In this paper we study whether social trust shapes firms’ CSR behavior. In particular, we expect firms located in societies with higher levels of social trust to have a better CSR performance. Our argument rests on the idea that managers in high-trust areas—pushed by social pressure—will exercise corporate social responsibility activities. We identify two channels through which trust

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affects CSR. On the one hand, the expected utility theory states that decision-makers in high-trust regions will perceive reduced levels of risk and higher expected utility, making them more likely to engage in CSR practices. Guiso et al. (2008) state that managers with a high level of trust can probably create goals that align with the goals of the firm's shareholders. A higher level of social trust prevents managers from acting in their own self-interest and lessens the likelihood that investors would be "cheated" by management (Guiso et al., 2008). As a result, a higher level of confidence between managers and shareholders is likely to dampen agency issues and conflicts (Chauhan et al., 2022). On the other hand, the social normative perspective sees companies operating in high-trust countries as facing social expectations. Therefore, they should consider higher levels of CSR practices to build up social recognition and shun social sanctions. In this context, CSR is considered to be the extent to which a company engages in social activities as a response to stakeholders' as well as social interests and beliefs (McWilliams and Siegel, 2001). As a reward, firms that exceed public expectations are supported and recognized by the society, whereas firms who fail to do so face social rejection and condemnation (Wang and Qian, 2011).

We test our conjecture using a sample of 12,951 firm-year observations from 32 countries during the period from 2004 to 2019. Our results provide evidence highlighting social trust as a factor that is likely to explain cross-country variations in corporate social responsibility activities. More specifically, we find that firms operating in countries with higher levels of social trust feature better CSR ratings. Our results are closely related to Chen and Wan (2019) and Chen et al. (2021) who also find that social trust is positively associated with CSR. The key difference, however, is that those papers rely on sample of Chinese firms, while our study is carried out in a cross-country setting. Although single-country studies are expected to provide valuable insights, the ability to generalize from studies involving one country is rather constrained by the country's unique internal characteristics. Our international setting is likely therefore to offer an interesting setting to examine how cross-country differences matter for CSR.

This study contributes to the literature in at least two important ways. First, it adds to the vast CSR literature that examines the determinants of firms' CSR engagement by identifying social trust as a possible driver of corporate social responsibility activities. Second, it enriches the line of research on the role of informal institutions by highlighting the important role that social trust plays in shaping firms' CSR behavior.

The remainder of the letter is outlined as follows. Section 2 describes data sources and defines the variables used in the subsequent analysis. Section 3 discusses the empirical findings. We conclude the paper in Section 4.

2. Data and variables

2.1. Data sources

To investigate the impact of social trust on CSR, we start by collecting data from the following sources: (1) trust data from the World Values Survey (WVS); (2) CSR scores from Thomson Reuters' ASSET4 database; and (3) firm-level variables from Compustat North America and Compustat Global databases. Macroeconomic variables are pulled from World Development Indicators (WDI). Country legal origin and economic freedom index come from La Porta et al. (1998) and the Fraser Institute's database, respectively. We rely on the Morgan Stanley Capital International (MSCI) list to classify countries into developed and emerging economies. The final sample consists of 12,951 firm-year observations from 32 countries over the 2004 to 2019 period.

2.2. Measures of corporate social responsibility

Following prior literature (El Ghouli et al., 2011, 2018, 2019; Chkir et al., 2021), we use a firm's overall CSR score to assess its CSR performance, denoted as *CSR score*. Our analysis considers also the individual components of *CSR score* which include the environmental, social, and governance scores, denoted as *ENSCORE*, *SOSCORE*, and *CGSCORE*, respectively. The environmental performance score aims to assess, compare, and improve the effectiveness of environmental practices. The social performance score considers a company's management strategies and describes how well they maintain a specific level of trust between the company and its labor force and community. The governance performance score reflects a firm's corporate governance and corporate behavior, which include the composition of the board in terms of diversity and independence, ownership, business ethics, and tax transparency.

2.3. Trust measure

Following extant studies (e.g., Guiso et al., 2008; Pevzner et al., 2015; Dudley and Zhang, 2016; Chauhan et al., 2022), we measure the trust level in a given country using citizens's answers to the following question in the World Values Survey (WVS): "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" Two answers are possible: "Most people can be trusted," and "Can't be too careful." A country's social trust index (*TRUST*) is then defined as the percentage of individuals who reply that most individuals may be trusted. As in Dudley and Zhang (2016) and Chauhan et al. (2022), we interpolate linearly to fill in this variable for the years between two adjacent surveys. Higher values indicate a higher level of trust.

2.4. Firm- and country-level control variables

We split our control variables into two groups. The first group controls for firm characteristics (El Ghouli et al., 2011, 2019; Chkir et al., 2021). Specifically, we control for firm size (*Size*), plant & equipment expenditures (*PPE*), market-to-book ratio (*MTB*), return on assets (*ROA*), firm leverage (*LEV*), research & development expenditures (*RD*), and capital expenditures (*CAPEX*).

Table 1
Sample distribution by country of origin and by year.

Country	N	Freq (%)	Year	N	Freq (%)
Argentina	4	0.03	2004	449	3.47
Australia	348	2.69	2005	580	4.48
Brazil	126	0.97	2006	592	4.57
Canada	375	2.9	2007	635	4.9
Chile	20	0.15	2008	723	5.58
China	308	2.38	2009	795	6.14
Colombia	13	0.1	2010	861	6.65
Finland	262	2.02	2011	893	6.9
France	581	4.49	2012	881	6.8
Germany	736	5.68	2013	812	6.27
Hong Kong	107	0.83	2014	797	6.15
India	368	2.84	2015	869	6.71
Indonesia	49	0.38	2016	909	7.02
Italy	139	1.07	2017	973	7.51
Japan	3339	25.78	2018	1060	8.18
Malaysia	91	0.7	2019	1122	8.66
Mexico	14	0.11	Total	12,951	100
Netherlands	233	1.8			
New Zealand	70	0.54			
Norway	123	0.95			
Peru	4	0.03			
Philippines	31	0.24			
Poland	28	0.22			
Russian Federation	47	0.36			
Singapore	43	0.33			
South Africa	160	1.24			
Spain	180	1.39			
Sweden	360	2.78			
Switzerland	440	3.4			
Thailand	18	0.14			
Turkey	98	0.76			
United States	4236	32.71			
Total	12,951	100			

This table shows the sample distribution by country of origin and year. The sample comprises 12,951 firm-year observations from 32 countries over the 2004 to 2019 period.

Table 2
Summary statistics: firm level data.

	N	Mean	p5	p25	Median	p75	St.Dev
CSR Score	12,951	51.01	16.9	35.64	51.91	66.95	20.13
SIZE	12,951	17.47	13.928	15.362	17.014	19.673	2.588
PPE	12,951	0.285	0.052	0.132	0.24	0.386	0.197
MTB	12,951	2.95	0.67	1.29	2.09	3.42	3.06
ROA	12,951	0.088	-0.002	0.045	0.078	0.123	.072
LEV	12,951	0.245	0.002	0.126	0.233	0.347	0.163
RD	12,951	0.029	0	0.003	0.015	0.038	0.04
CAPEX	12,951	5.27	1	2.47	4.14	6.59	4.614

This table presents the summary statistics for the firm level variables used in the main regression analysis of the impact of social trust on corporate social responsibility.

The second group includes the country-specific controls. Specifically, we use the gross domestic product (GDP) per capita for each country, denoted as $\text{Log}(GDPPC)$. We also include the Economic Freedom of the World Index to control for the institutional environment (Hartmann and Uhlenbruck, 2015; El Ghouli et al., 2019). We also employ two dummy variables: *Developed*, which takes the value of one if the company operates in a developed country and zero otherwise, to control for the country's economic development, and *Common law*, which takes the value of one if the company originates from a common law country and zero otherwise.

3. Empirical results

3.1. Summary statistics

Table 1 presents the sample distribution by country and by year. Japan and the United States dominate our sample at around 26% and 33% of the sample size, respectively. Our sample is likely to capture cross-country differences since it covers countries from

Table 3
Correlation matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) <i>CSR Score</i>	1.000												
(2) <i>TRUST</i>	0.042*	1.000											
(3) <i>SIZE</i>	0.196*	-0.153*	1.000										
(4) <i>PPE</i>	-0.025*	-0.026*	0.196*	1.000									
(5) <i>MTB</i>	-0.006	0.006	-0.272*	-0.174*	1.000								
(6) <i>ROA</i>	0.030*	0.032*	-0.174*	-0.092*	0.370*	1.000							
(7) <i>LEV</i>	0.070*	-0.050*	0.055*	0.231*	0.062*	-0.166*	1.000						
(8) <i>RD</i>	0.049*	-0.038*	-0.148*	-0.346*	0.241*	0.005	-0.201*	1.000					
(9) <i>CAPEX</i>	-0.086*	0.001	0.014	0.528*	0.027*	0.112*	0.018	-0.122*	1.000				
(10) <i>Log(GDPPC)</i>	0.036*	0.053*	-0.288*	-0.164*	0.025*	-0.038*	0.017	0.190*	-0.170*	1.000			
(11) <i>Economic Freedom</i>	-0.048*	-0.122*	-0.315*	-0.143*	0.113*	0.054*	-0.008	0.187*	-0.129*	0.825*	1.000		
(12) <i>Common law</i>	-0.069*	-0.308*	-0.457*	-0.063*	0.274*	0.225*	0.056*	0.102*	0.043*	0.053*	0.314*	1.000	
(13) <i>Developed</i>	0.022	-0.099*	-0.159*	-0.154*	-0.007	-0.050*	-0.003	0.185*	-0.161*	0.898*	0.830*	0.028*	1.000

This table reports the pair-wise correlation coefficients between all the variables used in the main regression analysis. * denotes significance level of 1%.

Table 4
The impact of trust on CSR.

VARIABLES	Clustering by firm (1)	Fama-MacBeth (2)	Newey-West (3)	Weighted least squares (4)
<i>TRUST</i>	0.062*** (0.018)	0.050*** (0.008)	0.056*** (0.014)	0.067*** (0.006)
<i>SIZE</i>	0.022*** (0.002)	0.023*** (0.001)	0.024*** (0.002)	0.024*** (0.001)
<i>PPE</i>	0.004 (0.036)	0.002 (0.016)	-0.036 (0.021)	0.008 (0.014)
<i>MTB</i>	-0.001 (0.001)	0.000 (0.001)	-0.002*** (0.001)	-0.001 (0.001)
<i>ROA</i>	0.328*** (0.059)	0.269*** (0.033)	0.421*** (0.019)	0.339*** (0.025)
<i>LEV</i>	0.104*** (0.031)	0.094*** (0.016)	0.117*** (0.011)	0.098*** (0.011)
<i>RD</i>	0.428*** (0.136)	0.403*** (0.062)	0.457*** (0.136)	0.424*** (0.048)
<i>CAPEX</i>	-0.003*** (0.001)	-0.004*** (0.001)	-0.001* (0.001)	-0.003*** (0.000)
<i>Log(GDPPC)</i>	0.009 (0.017)	0.081*** (0.008)	0.049** (0.022)	0.012* (0.006)
<i>Economic freedom</i>	-0.036* (0.022)	-0.102*** (0.010)	-0.049* (0.028)	-0.036*** (0.008)
<i>Common law</i>	0.030** (0.014)	0.051*** (0.006)	0.044** (0.016)	0.036*** (0.005)
<i>Developed</i>	0.115*** (0.040)	0.000 (0.020)	0.094*** (0.021)	0.110*** (0.015)
Constant	0.069 (0.182)	-0.007 (0.088)	-0.296* (0.140)	0.029 (0.065)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	No	Yes	Yes
N	12,951	12,951	12,951	12,951
Adj R-squared	0.224	0.456	0.456	0.231

This table portrays the results from regressing *CSR* score measure on *TRUST* measure and on firm- and country-level control variables. Industry and year fixed effects are also included. We winsorize all variables at the 1% and 99% levels. ***, **, * denote statistical significance at the 1%, 5% and 10% level, respectively.

different geopolitical regions (America, Asia, Europe, and Africa) and different legal regions (common law and civil law). Sample distribution by year indicates that the observations are evenly distributed across our sample period. Our regressions include year fixed effects to repel the concern that our results are affected by heterogeneity across years.

Table 2 reports the descriptive statistics. The mean and the median *CSR* scores for our sample are 51.01 and 51.91, respectively. On average, R&D expenditures and leverage, respectively, account for about 3% and 25% of total assets. Table 3 presents the correlation matrix. We observe a significant and positive correlation coefficient between *TRUST* and *CSR score*, providing a preliminary support for our hypothesis on the positive association between social trust and corporate social responsibility.

3.2. Main regression analysis

We examine the impact of social trust on *CSR* performance by running the following simple regression model:

$$CSR\ Score_t = \beta_0 + \beta_1 TRUST + \sum \beta\ Firm\ \&\ country\ controls_t + IndustryFE + YearFE + \varepsilon_t, \quad (1)$$

where *CSR Score* denotes our *CSR* measure. The *TRUST* variable captures a country's average level of trust. In addition to using various firm- and country-level controls, our regressions include also industry, based on two-digit SIC code industry classification, and year fixed effects. We winsorize all continuous variables at their respective 1st and 99th percentiles to minimize the effect of extreme observations. The appendix contains the definition of all variables.

Table 4 reports the results from estimating Eq. (1). In column 1, we rely on robust standard errors clustered at the firm level. Trust's coefficient is positive and statistically at less than the 1% threshold, suggesting that social trust exerts a positive influence on *CSR*. To provide further support for our findings, we employ several alternative econometric methodologies in Columns 2–4. Column 2 implements the Fama and MacBeth (1973) two-step procedure. Column 3 depicts the results of the Newey and West (1987) approach that adjusts standard errors for heteroskedasticity and autocorrelation, Column 4 contains the results from weighted least squares regression, using the inverse of the number of firm-year observations per country as weights. In all specifications of Table 4, *TRUST* retains its positive and highly significant coefficient, providing some assurance that our results are less likely to be unduly driven by the choice of the estimation method.

Turning to our control variables, we find that bigger firms, highly levered firms, firms spending more on R&D expenditures, and

Table 5
Individual CSR components.

VARIABLES	ENSCORE (1)	SOSCORE (2)	CGSCORE (3)
TRUST	0.062*** (0.022)	0.080*** (0.022)	0.035* (0.019)
SIZE	0.037*** (0.003)	0.012*** (0.003)	0.021*** (0.002)
PPE	0.073 (0.047)	-0.050 (0.045)	0.022 (0.037)
MTB	-0.000 (0.002)	0.000 (0.001)	-0.003** (0.001)
ROA	0.277*** (0.081)	0.363*** (0.068)	0.332*** (0.059)
LEV	0.109*** (0.040)	0.138*** (0.038)	0.037 (0.030)
RD	0.401** (0.190)	0.523*** (0.155)	0.320** (0.153)
CAPEX	-0.004*** (0.001)	-0.002** (0.001)	-0.003*** (0.001)
Log(GDPPC)	0.012 (0.021)	-0.016 (0.020)	0.049** (0.020)
Economic freedom	-0.073*** (0.028)	-0.017 (0.027)	-0.033 (0.023)
Common law	-0.013 (0.018)	0.042** (0.017)	0.065*** (0.014)
Developed	0.223*** (0.047)	0.124** (0.050)	-0.022 (0.043)
Constant	-0.075 (0.215)	0.290 (0.224)	-0.097 (0.196)
Firm clusters	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
N	12,951	12,951	12,951
Adj R-squared	0.303	0.189	0.102

This table presents the estimation results obtained by regressing individual components of CSR (Environmental *ENSCORE*), social (*SOSCORE*), and governance (*CGSCORE*) scores) on *TRUST* measure and on firm- and country-level control variables. Firm and year fixed effects are also included. We winsorize all variables at the 1% and 99% levels. *p*-values are based on robust standard errors clustered at the firm level. ***, **, * denote statistical significance at the 1%, 5% and 10% level, respectively.

firms with lower capital expenditures better CSR ratings. As per the country controls, we report that companies operating in developed and common law countries exhibit better CSR performance.

3.3. Additional tests

3.3.1. Alternative measures of CSR

To assuage the concern that our results might be driven by a particular component of CSR score, [Table 5](#) reruns our analysis after separately including the individual CSR scores namely, *ENSCORE*, *SOSCORE*, and *CGSCORE*. We find a positive and statistically significant coefficient for environmental performance, as reported in Column 1, suggesting that firms operating in high-trust environments have a better environmental CSR performance. This finding corroborates the findings of [Chen et al. \(2021\)](#), who document that trust enhances a firm's pollution-prevention strategies, leading to a reduction in their pollution emissions. Columns 2 and 3 show that *TRUST* has a positive and significant, at conventional significance levels, impact on firms' social and governance performance, respectively.

3.3.2. Excluding the United States and Japan

[Table 1](#) shows that the U.S. firm-year observations make up 33% of our sample observations, followed by Japan with 26% of the firm-year observations. Therefore, to alleviate the concern of a potential sample bias, that is, that our findings are mainly driven by these two countries, we re-estimate [Eq. \(1\)](#) after excluding both U.S. and Japanese firms. Column 1 of [Table 6](#) shows that our findings remain qualitatively unchanged.

3.3.3. Subperiod analysis

In this subsection, we repeat our analysis after excluding the financial crisis period of 2007–2008 from our sample. Prior research has shown that the financial crisis led the public to lose trust in institutions and government ([Ananyev and Guriev, 2016](#); [Uslaner, 2010](#)). Column 2 of [Table 6](#) reveals that social trust continues to have a positive influence on CSR.

Table 6
Robustness checks.

VARIABLES	Excluding USA and Japan (1)	Excluding 2007 and 2008 (2)
<i>TRUST</i>	0.065*** (0.017)	0.055*** (0.018)
<i>SIZE</i>	0.052*** (0.004)	0.021*** (0.002)
<i>PPE</i>	0.050 (0.039)	0.004 (0.036)
<i>MTB</i>	0.003** (0.002)	-0.000 (0.001)
<i>ROA</i>	0.165** (0.075)	0.332*** (0.059)
<i>LEV</i>	0.090** (0.038)	0.102*** (0.031)
<i>RD</i>	0.605*** (0.222)	0.409*** (0.136)
<i>CAPEX</i>	-0.004*** (0.001)	-0.004*** (0.001)
<i>Log(GDPPC)</i>	0.063*** (0.019)	0.004 (0.017)
<i>Economic freedom</i>	-0.071*** (0.024)	-0.029 (0.022)
<i>Common law</i>	0.014 (0.018)	0.024* (0.014)
<i>Developed</i>	0.193*** (0.042)	0.115*** (0.040)
Constant	-0.742*** (0.211)	0.077 (0.180)
Firm clusters	Yes	Yes
Industry fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Observations	5376	11,593
R-squared	0.394	0.227

This table presents the results by regressing CSR score measure on *TRUST* measure and on firm- and country-level control variables. Industry and year fixed effects are also included. The results are based on subsample excluding the United States and Japan (Column 1) and the crisis period (Column 2). The crisis period is defined as years 2007–08. We winsorize all variables at the 1% and 99% levels. *p*-values are based on robust standard errors clustered at the firm level. ***, **, * denote statistical significance at the 1%, 5% and 10% level, respectively.

4. Conclusion

This study examines the association between social trust and firms' CSR performance. Our primary intuition is that social trust, as an important cultural dimension, could affect a firm's decision to engage in socially responsible activities. Using a large sample of firms from 32 countries spanning the 2004–2019 period, we find a positive and significant relationship between *TRUST* and *CSR*, suggesting that social trust encourages firms to improve their CSR practices and performance. Our results reflect the importance of a trustworthiness relationship between firms and their stakeholders and how it could affect the investment decision. For policymakers, our findings indicate that strengthening an environment with a high level of trust and promoting the culture of trustworthiness among a country or a company may lead to higher engagement in CSR practices.

CRedit authorship contribution statement

Imed Chkir: Methodology, Writing – review & editing, Funding acquisition, Supervision. **Hatem Rjiba:** Conceptualization, Validation, Supervision. **Fatma Mrad:** Investigation, Formal analysis, Writing – original draft. **Afef Khalil:** Methodology, Software, Data curation.

Declaration of Competing Interest

None

Data availability

Data will be made available on request.

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Appendix– Variables definition

Variable	Definition	Source
<i>CSR score</i>	Aggregate CSR score.	Asset4 ESG database
<i>ENSCORE</i>	The environmental performance score.	As above
<i>SOSCORE</i>	The social performance score.	As above
<i>CGSCORE</i>	The corporate governance performance score.	As above
<i>SIZE</i>	The natural logarithm total assets in US dollars.	Compustat NA and Global database
<i>PPE</i>	Property, plant, and equipment divided by total assets.	As above
<i>MTB</i>	Ratio of the book value of equity divided by its book value	As above
<i>ROA</i>	Ratio of operating income before depreciation to total book assets.	As above
<i>LEV</i>	Ratio of book value of debt (long-term debt plus debt in current liabilities) to total book assets.	As above
<i>RD</i>	Ratio of research and development expenditure to total book assets.	As above
<i>CAPEX</i>	Ratio of capital expenditures to total book assets.	As above
<i>Log(GDPPC)</i>	The log of a country's US\$ GDP per capita.	WDI
<i>Economic Freedom</i>	The Economic Freedom Index	Fraser Institute's database
<i>Common law</i>	A dummy variable equal to one if the firm originates from a country with a common law legal system; and zero otherwise.	La Porta et al. (1998)
<i>Developed</i>	A dummy variable equal to one if the firm originates from a developed country; and zero otherwise.	MSCI

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