Is Sin Always A Sin? The Interaction Effect Of Social Norms And Financial Incentives On Market Participants’ Behaviour

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Abstract

Using alcohol, tobacco, and gaming consumption data and people’s attitudes toward these sin products to proxy for social norm acceptance levels, we show a strong interaction effect between social norms and financial incentives, which significantly influence the behaviour of market participants. Specifically, institutional investors’ shareholdings and analyst coverage of sin companies increase with the degree of social norm acceptance. The association between shareholdings/coverage and social norm acceptance is less pronounced for firms with higher future expected performance. Our results show that social norms and financial incentives have a powerful interaction effect in determining the behavior of market participants, suggesting that social norms can be crossed when motive and opportunity exist.