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Headline: Money talks when it comes to acceptability of 'sin' companies, study reveals

Money talks when it comes to acceptability of 'sin' companies, study reveals

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Toronto – Companies who make their money in the "sin" industries such as the tobacco, alcohol and gaming industries typically receive less attention from institutional investors and financial analysts.

But new research shows social norms and attitudes towards these types of businesses are subject to compromise when their share price looks to be on the rise. A paper from the University of Toronto's Rotman School of Management found that institutional shareholdings and analysts' coverage of sin firms were low when firm performance was low but went up with rising performance expectations.

That suggests that market participants may ignore social norms and standards with the right financial reward.

"This is a way to test the trade-off between people's non-financial and financial incentives. The boundary of people's social norms is not a constant," said researcher Hai Lu, an associate professor of accounting at the Rotman School. Prof. Lu co-wrote the paper with two former Rotman PhD students, McMaster University's Kevin Veenstra and Yanju Liu, now with Singapore Management University.

The paper sheds light on why there can be a disconnect between the investment behaviour of Wall St. and the ethical expectations of ordinary people. It also suggests a worrisome implication that compromising one's ethical values in the face of high financial rewards can become a social norm in itself.

On the brighter side, the paper also finds that strong social norms still have an influence over people's behaviour. If social norms are strong enough and the price of ignoring them is high, this may act as a disincentive to disregard them in favour of other benefits.

Hai Lu is an Associate Professor of Accounting at the University of Toronto's Rotman School of Management. His research interests lie in the areas of accounting and finance, specifically the regulation of capital markets, insider trading, securities valuation, corporate governance and financial analysts. His analysis of insider trading and the effect of the conflicting advice offered by financial analysts has attracted significant media interest, including coverage in The Wall Street Journal and attention from the regulators in both U.S. and Canada. He has published widely in leading international journals such as The Accounting Review, Contemporary Accounting Research, Journal of Accounting Research and Management Science.

This is the first study to examine whether the social acceptability of sin stocks can vary with financial performance. The researchers compared consumption and attitudinal data with information on sin firm stocks, analysts' coverage and levels of institutional investment.