



UNIVERSITY
OF ALBERTA

CPA Speaker Series:

Paul Fischer, University of Pennsylvania

Endogenous Social Norms In the Boardroom: Evidence from Insider Trading Activity

Friday, September 27, 2024

2:00 PM - 3:30 PM

Location: BUS 306

ABSTRACT

We develop a model in which individuals within a group are influenced by an endogenous social norm, which is determined by the group members' incentives, preferences, and responsiveness to the social norm. The model is used to structurally assess the influence of an endogenous norm of behavior on corporate board member insider trading. Our preliminary estimates (with a limited sample) suggest that the social norm is a material determinant of insider trading behavior, with the norm comprising about one quarter of the perceived cost of insider trading for the median director. Furthermore, the estimated determinants of individual personal norms and sensitivity to the social norm are consistent with individual characteristics identified in antecedent moral reasoning literature, validating that our measures reflect the underlying construct of interest. Overall, our findings imply that endogenous social norms can be an important determinant of behavior, which implies that the social norm mechanism should be considered when selecting individuals for a group, and when devising incentives for the individuals within that group.

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