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Insider Trading as a Precursor to Modern Business Ethics

By

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**An Honors Thesis in partial fulfillment of the requirements for the degree
Bachelor of Science in Business Administration in Finance**

Sam M. Walton College of Business

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Executive Summary

There has been a recent change in business that there is more focus on the “stakeholder approach” than shareholder primacy. This can be attributed to the early actions and illegality of insider trading that expected a step beyond a solely economic approach. This attitude was then replicated to become what we see as the modern business approach. Business now includes ethical investing, environmental focus, corporate citizenship, and emphasis on multiple stakeholders that was not always there. Companies have embraced this position while others have been criticized for not doing so. As this approach develops and changes, it will be enlightening to see how it effects business further.

Background

Business ethics has become more prevalent with greater society in the past decades. This includes more focus on multiple stakeholders in general. The sole focus was on a concept known as “profit maximizing” for shareholders (Valentine). Milton Friedman, author of “Capitalism and Freedom”, wrote an article in 1970 that supported this idea. He further wrote that the ideas of social responsibility “clearly harm the foundations of a free society” and is “preaching pure and unadulterated socialism” (Friedman). This idea has clearly changed and developed over time even as “shareholder primacy has been the core operating principle of public companies for about 50 years” (Winston).

Archie Carroll in 1979 developed elements of the concept and created the pyramid of Corporate Social Responsibility (CSR) (Bureana). As seen in the figure below, the 4 levels of a business’s responsibilities are shown. The very first is to be profitable, a business will not survive in the long run if there is no profit. The next is to be within the law and the third responsibility is to be ethical. The last is the philanthropic responsibilities which is now more towards the forefront when thinking about businesses. The first level of this diagram still reflects Milton Friedman’s idea of shareholder and economic primacy, but the upper levels portray the idea of responsibility which Friedman did not align with.

The Pyramid of Corporate Social Responsibility

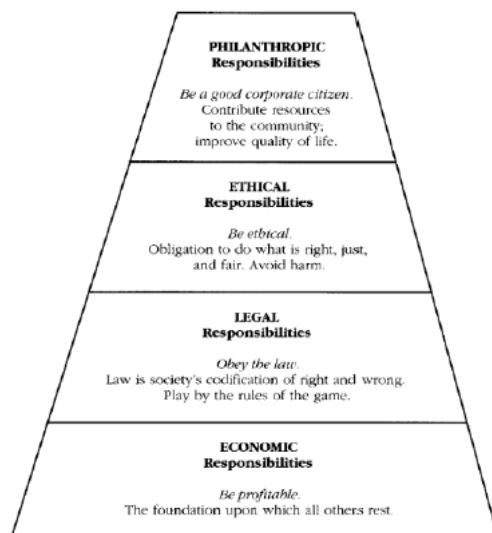


Figure 1: Archie Carroll’s CSR pyramid (Bureana)

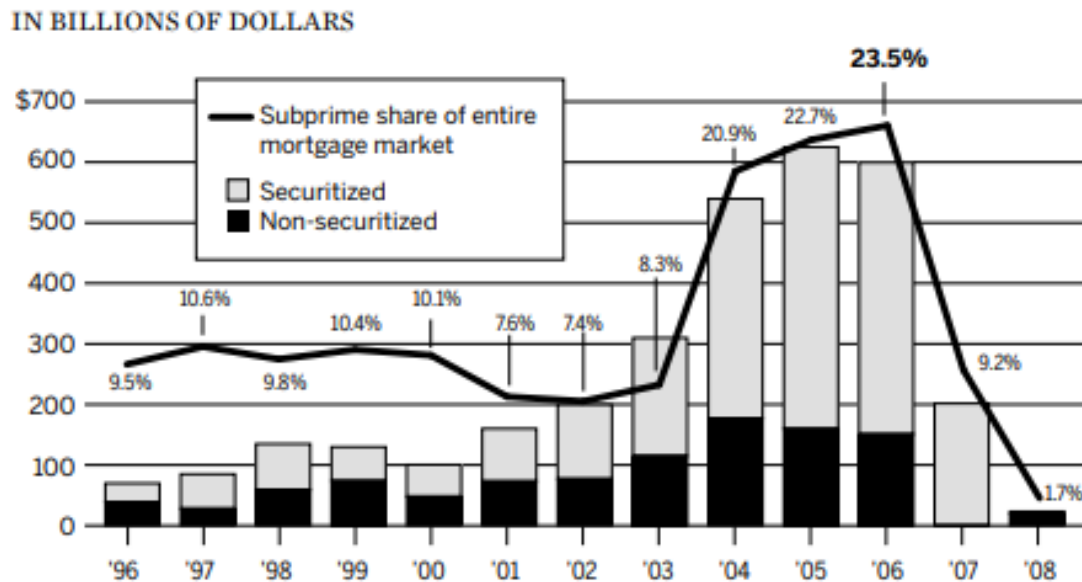
CSR progressed through multiple stages with roughly the same ideas and was debated and discussed extensively within academics in the 1990's (Bureana 42). Ethics further became a relevant discussion outside of academics due to events like Enron and the financial crisis of 2008. This widespread conversation further led to stakeholder's theory instead of a pure shareholders theory.

Stakeholder's theory is essentially that there are multiple stakeholders to be considered, not just the shareholder's pocketbook and was more formally introduced by Harold Johnson in the 1970's (Bureana 37). Johnson stated that "a responsible company takes into account its employees, suppliers, partners, local communities and nation" (1971)(Bureana). Friedman ascribed with shareholder primacy quite religiously while those that studied CSR had ideas towards stakeholder's theory (Friedman). The top of the pyramid demonstrates this idea. With philanthropic responsibilities being the last step, it includes this theory which demonstrates Carroll's adoption of Johnson's theory. Although how the pyramid is set up, with the "social" aspects on the last rung, there are other influences present. One of these influences is that of George Steiner in 1971. He stated, "companies are and must remain fundamentally economic institutions". The base of Carroll's CSR pyramid reflects this idea. Another influence on the pyramid is from Henry Manne and Henry Wallich's debate in 1972 entitled "The Modern Corporation and Social Responsibility" (Bureana). It represents that socially responsible actions should "be pure voluntarily". The top of the pyramid represents more of a goal than that of a necessity for success. "Corporate citizenship" is directly related to the community in a type of symbiotic relationship where companies and communities affect each other's "vitality and well-being" (Budriene).

The 90's became a hotspot for debate on ethics, including stakeholders' theory and CSR also proved to be an important research topic in that decade (Bureana). CSR then exploded in the 2000's as a public subject which can be attributed to the widespread knowledge of the accounting fraud committed by Enron, WorldCom, and the 2008 financial crisis. The "window dressing" that Enron and WorldCom committed was extensively covered and is still recognized almost two decades later (Markham). Considering the CSR pyramid, Enron was only on the economic level. The financial crisis was more widespread in its ramifications across the world and can be attributed to greed and unethical, but not illegal, behavior in the banking system.

Sub-prime mortgages can be attributed as one of the main factors of causing the financial crisis. With less regulation in the banking system, collateralized debt obligations (CDO) became popular and packed with mortgages (Financial Crisis Inquiry Commission). More mortgages were needed to pack into these CDOs to make more profits so sub-prime mortgages started going out at higher rates (Investopedia). The Figure below shows the exponential gain in the amount of sub-prime mortgages compared to the mortgage market (Financial Crisis Inquiry Commission). This also led to higher default rates, popping the housing bubble and helping to cause the widespread issues associated with the crisis. Without the proper regulation, investment banks were not taking illegal actions, but were being unethical. They were only fulfilling the bottom two layers of the CSR pyramid and were not considering the number of stakeholders that could be involved due to their actions.

Figure 2: the percentage of sub-prime mortgages in the economy over time.
(Financial Crisis Inquiry Commission)



NOTE: Percent securitized is defined as subprime securities issued divided by originations in a given year. In 2007, securities issued exceeded originations.

SOURCE: Inside Mortgage Finance

As a result of the financial crisis, the Wall Street Reform and Protection Act, also known as the Dodd-Frank Act, was passed to ensure more transparency in banking and more safety overall (U.S. Congress HR4173). These provisions included higher reserve requirements, stronger whistleblowing measures, and the Volcker Rule. The Volcker Rule is unique in that it is named after former Federal Reserve Chair Paul Volcker and is meant to prohibit banks from engaging in certain activities (Investopedia). These activities are mainly focused on hedge funds and that banks should not be “engaging in proprietary trading or investing in or sponsoring hedge funds or private equity funds” (Federal Reserve Board).

Insider Trading

Insider Trading has been illegal for quite some time and has been in the news fairly recently with the alleged insider trading of Senators due to the market turn in March of 2020 (Viswanatha). The idea and legality of Insider Trading has been debated and questioned

thoroughly among its time. Some say that there should not be a punishment for insider trading as it should not be illegal and others say that it should be illegal in order to ensure there is fairness and trust within the stock markets (UPenn). Others also consider insider trading as a type of “victimless crime” due to its side effect only being greed. A notable supporter of Insider Trading was Milton Friedman. His insight was that “you should want more insider trading, not less” and that by insider trading occurring it was allowing the market to show “deficiencies” that others should know about. Insider trading is illegal mainly due to its effect on markets and the breach of fiduciary duty that insider positions have (Cornell Law).

The case of *United States v Newman* (773 F.3d 438 (2d Cir. 2014)) caused quite a stir in the area of Insider Trading. It called into question whether those that did not have a fiduciary duty and learned of insider trading “through the grapevine” and did not know that it was privileged could still be held liable. The Second Circuit Court of Appeals ruled that the defendants should not be held liable. This specific ruling caused an onslaught of bills introduced in Congress after its failure to be reviewed by the Supreme Court that were “seeking to define and update insider trading law” (Bharara Task Force). None of these bills have passed so far so there have not been any amendments to the law. However, the court systems have played a large role in interpreting and implementing Insider Trading rules.

Insider trading originally became illegal through the Supreme Court in the 1909 case of *Strong v. Repide* (213 US 419 (1909)). While this ruling did not make insider trading as a rule illegal, it was instrumental in putting the behavior on the map. It also specifically required that insiders must disclose nonpublic information (*Strong v. Repide* 213 US 419 (1909)). Insider trading was originally shaped by the court systems and local government until Congress stepped in. Much like almost 70 years later after an economic downturn with the Dodd-Frank Act, Congress passed the Glass-Steagall Act and Securities Act in 1933 and Securities Exchange Act of 1934 due to the market crash in 1929 (Procon.org).

An interesting case of what would now be considered insider trading was that of Albert Wiggin. His activities were revealed in the Pecora Commissions hearings in 1932 (Giroux). The Pecora hearings were to investigate Wall Street after the market crash that occurred in 1929 and it was discovered that Mr. Wiggin made four million dollars in tax-free profit by short selling over 40,000 shares of his own bank as the economy went towards a recession (Giroux). By using a Canadian shell company, he made the profits tax-free and made his own money while his bank bought shares (Giroux). At the time, his actions were wholly unethical, but not illegal. His testimony helped to influence the Pecora Commission which then influenced the passage of the Glass-Steagall Act and Securities Exchange Act (Procon.org).

These laws together form what is known as the Securities and Exchange Commission (SEC). The main goal of the modern SEC is to “protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation” (SEC.gov). The idea of the efficient market hypothesis is also a contested area of finance, just like insider trading.

The idea of efficient market hypothesis (EMH) goes with insider trading in that one of the three forms would serve insider trading as useless. The three forms of the EMH are weak, semi-strong, and strong, which are shown in the Figure below (Lin). The weak form means that the markets reflect all of the historical prices. The semi-strong means that the financial markets

reflect historical prices and public information. This public information includes balance sheets, statement of cash flows, income statements etc....which all can serve as indicators of a company's health and their future stock prices (Jordan 214). The strong form means that prices reflect public and private information. This obviously means that insider trading would not work if all the available information was already reflected in the prices on the stock market (Jordan 214). Insider trading has been shown to have financial gains and considering how hard it is to actually beat the market, the market is more likely a semi-strong efficiency (Pisani).

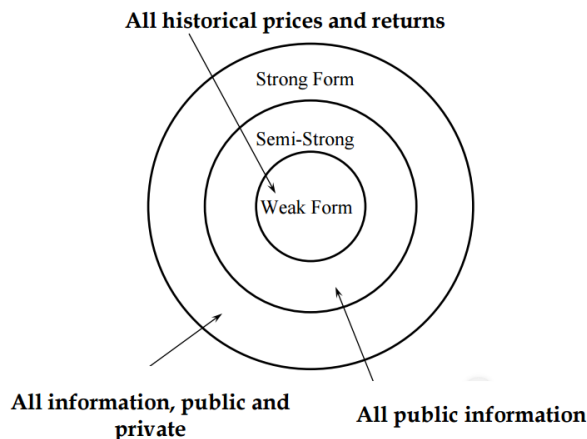


Figure 3: The three forms of the EMH (Lin)

The SEC also adopts this hypothesis in order to have insider trading as an illegal action. If the strong form of market efficiency exists, then insider trading does not work (Jordan 214). The main crux of the original illegality of insider trading is Section 20A in the Securities Exchange Act of 1934. It states the illegality that by “purchasing or selling a security while in possession of material, nonpublic information shall be liable” in court (Securities Exchange Act of 1934 Sec. 20A (a)). It also established a statute of limitation of 5 years and the penalty would be equal to the amount of profit that was gained (Securities Exchange Act of 1934 Sec. 20A (b)(4), Securities Exchange Act of 1934 Sec. 20A (b)(1)). The Act also established what is now known as the “tipper” and “tippee” by the section entitled “joint and several liability for communicating” by stating that the person who communicated the material was just as liable as “to whom the communication was directed” Securities Exchange Act of 1934 Sec. 20A (c). Section 10(b) is also used frequently in that “any manipulative or deceptive device or contrivance in contravention of such rules and regulations...in connection with the purchase or sale of any security” to determine illegality in the Securities Exchange Act (Seitzinger).

Rule 10b-5 was passed in 1942 as a response to a president of a company who was buying shares while misrepresenting the company's earnings (The Unusual Administrative History of Rule 10b-5). Rule 10b-5 extended misrepresentations to the purchase of securities.

This rule represented an extension of insider trading laws that helped lead to further extensions in the court systems and congressionally.

The Supreme Court made an important distinction in *Chiarella v United States* (445 U.S. 222 (1980)). A profit was made by Chiarella in this case after figuring out non-public information, but the Court determined that Chiarella did not have the fiduciary relationship and was thus determined not as an insider. The United States Supreme Court created a significant precedent in insider trading with the case of *Dirks vs SEC* (463 US 646 (1983)). This case further explored the relationship of insider trading to business and further defined “tippee” and “tipper” relations by the Court’s decision that the intentions of the tipper and tippee are necessary to determine liability (464 US 646 (1983)). If there was no profit or “improper benefit” gained from the information gained, there was no liability (464 US 646 (1983)). These decisions helped spur and develop the interpretation of Insider Trading.

The Insider Trading Sanctions Act of 1984 was a law that mainly effected the penalty of insider trading (US Congress). It changed the penalty so that it will “not exceed three times the profit gained, or loss avoided as a result of such unlawful purchase of sale” (US Congress). It builds on the Securities Exchange Act’s single damages and jumps all the way to treble damages. This cements insider trading as a white-collar crime with its similarity to RICO’s treble damages (18 U.S. Code § 1964 - Civil Remedies). The Insider Trading and Securities Fraud Enforcement Act of 1988 further expanded damages. It stated that it “limits the civil liability of a controlled person to the greater of \$1,000,000 or three times the amount of the gained or loss avoided as a result of the controlled person’s violation” (US Congress). This monetary damage amount is a very serious imposition on whomever chooses to engage in insider trading with criminal charges also an option.

There is a distinction to be made with legal, illegal, and informed insider trading (Jordan 219). Illegal insider trading usually gets the most attention due to the penalties imposed. An example of one of these sentences is that of former representative Chris Collins (Feuer). With one phone call to his son after getting an email from an insider that an important drug trial had failed, he avoided a loss of over \$570,000 and was subsequently sentenced to 26 months in prison (Feuer). Martha Stewart was a notable example of publicized insider trading allegations (The Associate Press). She allegedly received a tip through her stockbroker about the FDA rejecting a cancer treatment for the company ImClone, due to her sale, she allegedly avoided a loss of \$45,673 (Carlin). However, the verdict for her trial was that she was found guilty of every charge but insider trading (Jordan 220). She was sentenced to 5 months in a minimum-security prison, 5 months house arrest, and 2 years of probation (Jordan 220). The SEC’s Director of Enforcement remarked on the charges the SEC filed against Stewart further explaining the role that insider trading laws serve that “it is fundamentally unfair to someone to have an edge on the market” (Carlin).

The burden on proving insider trading is fairly high in that the SEC must prove that the trader was aware that the information that they were basing their trade on was material non-public information which would make them a bona fide “tippee” (Jordan 219). This was clearly demonstrated in Stewart’s case since it was never proven that she was aware of the illegality. Legal insider trading involves company insiders following rules relating to disclosures and trading like Rule 10b5-1. This SEC rule essentially is a legal “plan” that is meant for insiders to

be able to trade without the liability of insider trading (Gelfond). They can be described as a “passive investment scheme” where insiders do not have direct control over trades when they may have material non-public information (Gelfond). There are also several forms that the SEC uses when dealing insider trading such as Forms 3, 4, and 5 (SEC Office of Investor Education and Advocacy).

Form 3 is used when someone becomes an insider and is also in possession of securities of the company that they are an insider for and requires 10-day deadline after becoming an insider (SEC). Form 4 is when someone is an insider and is required to report a transaction which is then made public within 2 days of the transaction (SEC). There are some exemptions to this form which are then covered in Form 5 which is meant to cover these exemptions and also if a necessary transaction was not reported (SEC Office of Investor Education and Advocacy). The due date is 45 days after the fiscal year of the company ends and is only optional (SEC).

Another area of legal insider trading is the short swing trading rule. Section 16(b) of the Securities Exchange Act of 1934 is the area that specifically coincides with this concept. Insiders are not allowed to buy and sell the security within 6 months or buy and sell, and if profits are made, they must be returned to the firm (White, US Congress). Although, this does not qualify as going across different securities which White calls “pseudo short-swing insider trades” (pp.1306). Just like insider trading in general, the short-swing provision is also extremely contested. Those against it consider it to be “irrational, inefficient, and insignificant” which is probably what Milton Friedman would agree with as well (White pp.1307). Although short-swing trading is illegal, pseudo-short swing trading was shown to generate abnormal returns (White). This brings to question whether this type of activity, should also be illegal.

Related to the coronavirus there were several allegations of insider trading by senators (Viswanatha). They were Kelly Loeffler and David Perdue from Georgia, Jim Inhofe from Oklahoma, and Diane Feinstein from California and were all United States senators at the time and were accused of dropping millions of dollars in stock before the market tanked due to the pandemic but after closed door meetings that they attended (Viswanatha). The Department of Justice closed all investigations into the senators, including Richard Burr who was investigated longer than the others (Perez). The “Stop Trading on Congressional Knowledge Act” also known as the STOCK Act was passed in 2012 and made insider trading officially illegal (Congressional Research Service). However, a bill surreptitiously named S. 716 was passed a year later and took “the teeth out of the regulations” (Ridge 2017). Even though the passage of the STOCK Act and then the subsequent passage of S. 716 may not have been the great stride expected, it was a step in the right direction of ethics, multiple stakeholders, and insider trading and seemed to have a effect on trading by those in Congress (Belmont).

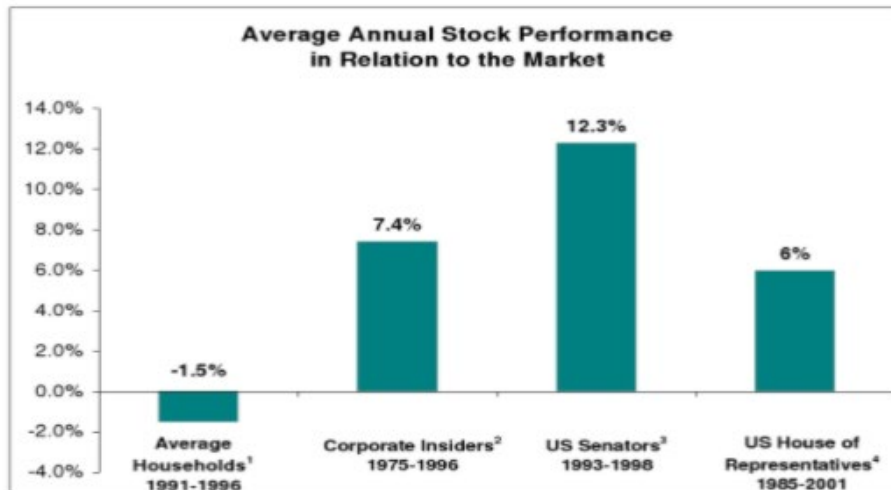


Figure 4: Returns relative to the average benchmark return (Retrieved from ProCon.org)

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1. Brad M. Barber, MBA, PhD, and Terrance Odean, PhD, "Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors," *The Journal of Finance*, Apr. 2000. The study shows that the average household's stock portfolio earns an annual return of 16.4% on the stock market while the market's average return is 17.9%. ProCon.org used the difference between 16.4% and 17.9%, which is 1.5%, to indicate the average household's stock performance in relation to the market. We confirmed this calculation with Dr. Barber on Feb. 12, 2009.
2. Leslie A. Jeng, PhD, Andrew Metrick, PhD, and Richard Zeckhauser, PhD, "Estimating the Returns to Insider Trading: A Performance-Evaluation Perspective," *The Review of Economics and Statistics*, May 2003. The study showed that the stock purchases of corporate insiders perform higher than the market average by 52-68 basis points per month. The study did not find significant abnormal returns for corporate insiders' stock sales. The average of 52 and 68 basis points is 60 basis points, which equals an approximate 7.4% annual return.
3. Alan J. Ziobrowski, PhD, Ping Cheng, PhD, James W. Boyd, PhD, and Brigitte J. Ziobrowski, PhD, "Abnormal Returns from the Common Stock Investments of the U.S. Senate," *Journal of Financial and Quantitative Analysis*, Dec. 2004. The study shows that Senators' stock sales and purchases combined outperform the market by 97 basis points per month, or 12.3% per year.
4. Alan J. Ziobrowski, PhD, James W. Boyd, PhD, Ping Cheng, PhD, and Brigitte J. Ziobrowski, PhD, "Abnormal Returns From the Common Stock Investments of Members of the US House of Representatives," *Business and Politics*, May 2011. The study shows that members of the US House of Representatives' stock sales and purchases combined outperform the market by 55 basis points per month, or about 6% per year.

More recent research suggests that the STOCK Act might have made an effect despite the lack of enforcement. These studies have found that not only do members of Congress not have an advantage in trading but that their portfolios underperformed passive portfolios along with a decrease in trading activity and volume after the STOCK Act went into effect (Belmont). This activity, or lack thereof, conveys that even though the regulations may have been undercut by S. 716, it was still effective in a way.

Multiple Stakeholders in Business

Legislation and court decisions on insider trading led the way on what we now think of as ethical in business. Through thinking about fairness and multiple stakeholders in insider trading laws, the framework of Corporate Social Responsibility was influenced. An earlier example of this is the Environmental Protection Agency (EPA). As the EPA is known now, it enforces environmental protection through law (EPA). With the law as institutionalized ethics, it solidified the concern for the multiple stakeholders with the environment and those that are affected by it. The book *Silent Spring* by Rachel Carson, published in 1962, was a fundamental shift in the public's mind about other stakeholders at play (EPA). A main idea of the book was the side effects of pesticides, specifically DDT, and what the environment and communities were losing for businesses and farmers to make profits (Carson). This eventually led to other environmental protections and actions by the EPA (EPA). In relation to CSR, this added the second level to the responsibility pyramid for these types of businesses.

Another example by media in pushing the idea of ethics in business is that of the movie "9 to 5" in 1980. Even though it was a comedy, the programs that were enacted such as equal pay, on-site day care, drug counseling, and flexible work arrangements are all examples of a multiple stakeholder approach focusing internally on employees (Hughes). It demonstrates the company fulfilling the last level of the CSR pyramid of contributing positively to the community. Programs like those implemented in the film are still relevant and are still noticed by modern companies like Patagonia, which has a 100% retention rate for women returning to work who have had children in the past five years (Torres). Patagonia has shown to have a serious vested interest that has very real economic implications. Chouinard mentioned in an interview that "the average cost to replace an employee is \$50,000, including headhunter fees, lost productivity, [and] training" (Buchanan). By investing into their employees in other places like their on-site day care center, the company is saving significant internal costs (Buchanan). Patagonia on its own has shown to have a deep sense of multiple stakeholder importance, especially with the environment and the products they make. Yvon Chouinard, founder and owner, has made it very clear what he wants his business to be about. He stated, "we're in business to try to save this planet and influence other companies that green business is good business" and the company seems to support this statement by donating 1% of their sales to environmental causes (Buchanan). Chouinard also used the phrase "business leaders can't afford to lead an unexamined life" after using an example that even if you had the best business in the world and were making harmful products, something is still wrong with what you are doing (Buchanan). This statement further supports the idea of multiple stakeholder importance and goes further to help explain what is now thought as modern ethics in that it is not purely economical and is geared toward "helping the economy as a human being" (Budriene).

This idea became the basis for the Business Roundtable which has been greatly supported in the business world. In fact, 181 CEOs signed the "Statement on the Purpose of a Corporation" in 2019 (Business Roundtable). This statement included and alluded heavily more to stakeholder theory with its commitments to "investing in our employees...dealing fairly and ethically with our suppliers...supporting the communities in which we work" and "to create value for all stakeholders" (Business Roundtable). Some have criticized this document and mission as a start to progress but are just words until real action is taken (Winston).

Two of the notable examples pointed out in this example is Exxon Mobil and Johnson & Johnson (Winston). Both were signers of the roundtable and have made questionable ethical decisions recently. Exxon Mobil has not been on the side of climate change “questioning climate science and slowing global action” (Winston). Johnson & Johnson recently had a large court case due to its fine of \$465 million from Oklahoma due to the opioid crisis and the countless other lawsuits all over the country which amounted up to an almost \$26 billion dollar settlement at one point (Achenbach). Both of these companies were clearly not as keen on the stakeholder theory or the last level of the CSR pyramid. An example with a lofty goal is what has been called the Climate Pledge. The goal of these companies is to achieve net zero annual carbon emissions by 2040 (The Climate Pledge). Amazon was a co-founder of this initiative in 2019 and now has over 53 companies pledged to this cause (The Climate Pledge). Amazon has made notable strides towards this goal by donating \$2 billion to reduce emissions throughout the world, creating the goal of 100% renewable energy by 2025, purchasing a fleet of delivery vehicles, and putting \$100 million into “climate mitigation solutions” (Amazon). There are many other monetary ways of pushing sustainable change by those that are not part of large companies.

A method of this has become known as “ethical investing”. This practice has become more popular to the point where portfolio managers will most likely include these investments in their stock portfolios (Budriene). Over time, these investments are thought to be more sustainable but have represented some recent challenges with the effects of stakeholder theory. Specifically, the California Public Employees’ Retirement System (Calpers) was historic in dropping tobacco stocks from its portfolio (Gillers). The ban was placed in 2001 so it has been tobacco free for over 20 years and has apparently missed out on \$3.6 billion in gains found through back testing (Gillers). With an underfunded pension fund, Calpers was having second thoughts about its decision to divest when at the time that they dropped the stock in 2001, there was no deficit (Gillers). Then the financial crisis happened (Gillers). Some divestitures have saved the fund money, but it has not made up for the losses from tobacco stocks as shown in the Figure below (Gillers).

Figure 5: Calpers' gain or loss due to divestiture (Gillers)



Note: Data are as of June 30, 2018.
Source: Wilshire Associates

Calpers' dilemma represents an issue that has caused a dichotomy in investors between what are known as "sin indexes" which consist of investments in casinos, guns, tobacco, alcohol, and firearms (Smith). The other side is the "ethical" (or social) indexes or companies (Smith). These are the companies that "treat their employees with respect, their production is healthy, and they act ethically in all circumstances" (Budriene). So far, sin indexes have historically earned better returns than their ethical counterparts while ethical indexes have done fairly well compared to their benchmarks (Smith). Due to the semi-strong market efficiency, holding a broad-based market index is a good investment strategy due to active investment not gaining much more than passive investment strategies after fees (Pisani). The higher demand for ethical investments will surely cause more investments to be made in this but due to their tendency to match benchmarks, it will most likely not lead to higher returns (Budriene, Gustke). However, as Todd Rosenbluth, the director of mutual fund and ETF research at CFRA, a large investment research firm, remarked, "getting comparable performance and feeling better about socially responsible investments is a win for investors" (Gustke). As the era of more corporate responsibility continues, socially responsible investing is more sustainable and will likely not have as many ethical dilemma's but so far have not proven to be more profitable as shown in the figure below (Gustke). The sustainability comes in where the ethical investments have been proven to be "less risky, less volatile, and more attractive in the period of sustainable economic growth" (Budriene).

SOCIAL INDEX VS. BROAD US STOCK MARKET

PERIOD ↕	KLD 400 SOCIAL INDEX ↕	MSCI USA INVESTABLE MARKET INDEX ↕
1 YEAR	17.03	17.67
3 YEAR	9.56	9.75
5 YEAR	15.33	15.27
10 YEAR	7.13	7.13
SINCE INCEPTION (MAY 31, 1994)	9.8	9.72

Figure 6: Returns of a broad market index vs an ethical index (Gustke)

Conclusion

The illegality and ethics of insider trading was a precursor to what is now thought of as modern business ethics. From the idea of “shareholder primacy” which is solely focused on making profits, which is the idea of insider trading, to multiple stakeholders. Insider trading is meant to provide trust in the markets with insider information causing an unfairness in the semi-strong form of market efficiency. There is more emphasis on fairness in modern ethics. Companies are applauded for taking more environmentally friendly stances while also investing in their employees and communities. Ethical investing has also been a recent trend to invest in sustainable indexes and companies. All of these effects have been due to changing attitudes in the area of business which insider trading laws helped spur along.

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