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Commitment among ethical investors: An experimental approach

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Abstract

Recent studies have highlighted two apparent 'contradictions' in the behaviour of ethical investors: it is not unusual for people to waive the interest on their ethical investments but say they would invest more if the interest rate was raised and it is common for people to invest both in ethical and standard funds. Lewis and Mackenzie have proposed that these contradictions can be resolved using the ideas of framing and mental accounts. The current paper uses an experimental approach to explore these issues. Participants took part in a role-play of a consultation with a 'virtual' financial advisor. This was setup on the World Wide Web. Participants used the Netscape browser to provide financial and other information to the financial advisor. They were then presented with a variety of investment choices. The study revealed that ethical investors were generally committed to ethical investment, and kept such investments even if they performed badly or were ethically ineffective. © 2001 Elsevier Science B.V. All rights reserved.

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1. Introduction

There has been a marked growth in the literature recently claiming that there is more to economics than simple optimality; as Etzioni (1988) put it "economics has a moral dimension". This does not mean that economic decisions are irrational, merely that decision-makers may take into account what is 'right' as well as what is most profitable. An interest in the role of 'morality' or 'ethics' in economic behaviour can be seen in studies of the importance of fairness and reciprocity in economic behaviour (Fehr & Gachter, 1998; Fehr & Schmidt, 1999), of ethical values (Burlando, 2000) of business ethics (Wärneryd & Westlund, 1992) and in 'popular' models of financial markets (Winnett & Lewis, 2000).

Studies of ethical investment have been concerned with whether it is actually ethical, whether the performance of ethical trusts has a specific ethical component or whether it can be accounted for by the size or type of firms concerned and, of most importance to economic psychologists, whether ethical investors are different from others, and prepared to incur some costs in order to invest ethically (Domini & Kinder, 1984; Anand & Cownton, 1993; Lewis, Webley, Winnett, & Mackenzie, 1998).

Initial studies in the UK by Lewis and his colleagues (e.g., Lewis & Cullis, 1990; Cullis, Lewis, & Winnett, 1992; Lewis & Webley, 1994) appear to show that moral commitment is highly price-elastic: sympathetic investors are prepared to choose ethical funds as part of a mixed portfolio as long as they are performing reasonably but enthusiasm for investing ethically drops if the financial return is poor. Likewise trust managers are keen to develop ethical funds (as 'ethicality' is a marketable characteristic) but want their ethical funds to perform well – the message they want to get across to the investor is that they have their cake and eat it, they can express their moral concerns yet still make money. A study by Mackenzie and Lewis (1999), however, puts an interesting gloss on this picture. They carried out detailed interviews with 10 investors in shared interest (SI), a co-operative lending society which lends the majority of its money to small projects in the Third World and which pays its members an interest rate of only 2%. These interviews revealed two apparent anomalies. First, it is not unusual for members of SI to waive their right to receive interest but nonetheless claim that they would invest more in SI if the interest rate were higher. Second, it was common for investors to