

Ethical Investment: An experimental comparison of three models concerning ethical behaviour on asset markets

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Abstract: During the last decade supply on asset markets changed. An increasing number of shareholders and fund managers ask for ethical investments. Ethical investments differ from common investments in the way that the reason to invest in them is not only financially but also emotionally motivated.

The present study investigates causes of the demand of ethical assets. While neoclassical economic theory emphasizes financial reasons influencing investment decisions, the increasing market for ethical investment exhibits that investment decisions are influenced by financial as well as other motives. What other motives are relevant? Neoclassical economic theory predicts behaviour of investors on assets markets solely as a result of perceived utility, which origins in a combination of the risk and the financial outcome of assets. The psychological theory of planned behaviour stated by Ajzen (1985, 1987), on the other hand, predicts behaviour as a result of the attitude toward the behaviour, the subjective norm and the perceived behavioural control. Jones' (1991) issue-contingent model of ethical decision making in organisations describes ethical behaviour as influenced by moral intensity as well as by organisational factors.

All three theories, the neoclassical economic theory, the theory of planned behaviour (Ajzen, 1985, 1987) and the issue-contingent model of ethical decision making in organisations (Jones, 1991), pretend to predict behaviour. Since all three use different predictors, we would expect differences between the predicted behaviours despite equal initial conditions. The first purpose of the present study is to investigate the predictive power of each theory and to detect the most adequate one to explain ethical behaviour on asset markets. The second aim of the study is to examine the difference of prices, to which the assets of different ethicalness are traded.

On this account two experiments are conducted, which allow to vary predictors as well as to observe actual behaviour. The experiments are operationalised in computer simulations, which create an artificial asset market of nine periods with several changing scenarios. In each period the participants, undergraduates of economics, trade five assets, which differ in their ethicalness as well as their expected gains or losses. Since the operationalisation of the models is complicated and complex, depth interviews with fund managers and focus groups with ethical investors are held prior to the experiments. They mainly serve to create the simulation as close to reality as possible, but they also serve to gather information on investors and their motives.

We hypothesise that the issue-contingent model of ethical decision making in organisations (Jones, 1991) to be the best model to explain ethical behaviour on asset markets, and we expect the ethical assets to be traded to higher prices than unethical ones. The findings will induce a better understanding of ethical behaviour on asset markets and give beneficial guidance to how to increase investors' interests in ethical investments.