A cognitive assessment of decision-making criteria applied in long-term investment : a conflict between ethics and maximizing profit?

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CERReV, the risk pole

When making an investment decision, will ethical considerations encourage today's investor to take into account factors other than risk and maximum profit? Our experimental study deals with the layperson's cognitive assessment of risk and ethics in his investment decisions on the stockmarket.

Hypotheses

Hypothesis 1 : Because he is accustomed to being in unambiguous situations, the layperson has a strong tendency to polarize his investment decisions in situations where there is no conflict involved. Thus, he will invest heavily or lightly wherever the risk and ethics factors converge.

Hypothesis 2 : Where there is conflict involved in investment decisions, the layperson will use ethics as his guiding principle. Thus, he will give precedence to a long-term ethical investment rather than making an investment which will maximize profits.

Study design :

The participant(s) are presented with a scenario involving a company whose activities are based either on strong or on weak ethical principals in an economic context where the risk appears as either low (« low risk ») or high (« high risk »).

Having studied the proposed scenarios, the participant(s) indicate by means of a vertical line the level of intensity at which they would rate their opinions or their answers on analogue assessement scales divided into 10 segments ranging from 0 (I would definitely not invest) to 10 (I would definitely invest) (cf. figure 1).

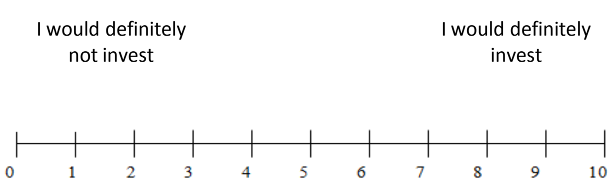
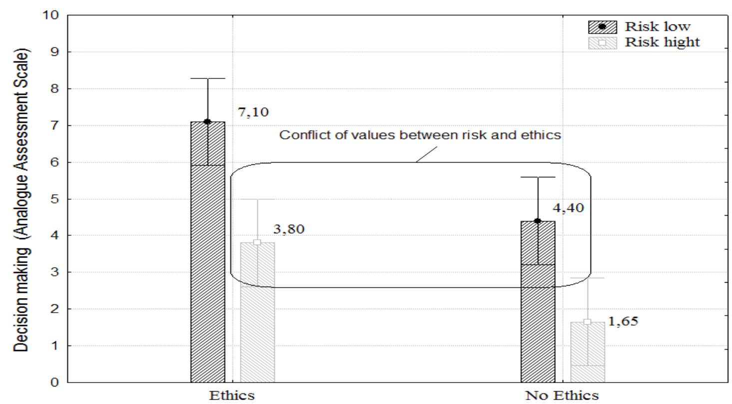


Figure 1 : Analogue Assessment Scale

Results



Hypothesis 1 confirmed : in low risk, ethical situations, where there is no conflict, the participants will invest heavily ((M = 7.1, SE = 1.80) (Chi 2 (1, N = 20) = 5.20, p < .01) and in high risk unethical situations, where there is no conflict, the participant(s) will make light investments ((M = 1.65, SE = 2.47), (Chi 2 (1, N = 20) = -6.04, p < .01)). However, in situations where there is a conflict, the participant(s) will invest moderately ((M = 4.40, SE = 3.28), (Chi 2 (1, N = 20) = -0.82, p =. 42), (M = 3.80, SE = 2.88), (Chi 2 (1, N = 20) = -1.87, p =. 08)).

Hypothesis 2 not confirmed : the ethical factor does not hold sway in the decision-making. The results reveal a significant effect in the decision-making means, according to the level of risk (low risk VS high risk) (F (1,76) = 22.36, p <.01) and according to the ethics (ethical VS unethical) (F (1,76) = 20.78, p <.01). The level of risk and the ethics each have a separate impact in the decision-making(F (1, 76) = 0.80, p = .37).

Conclusion :

When there is no conflict of values, subjects did not make a specific cognitive processing it. Make a decision in situations they are not ambiguous easy, and polarize their decisions to invest or not. However, the non-experts temper their decisions to invest in conflict situations. They invest so average in ambiguous situations, and this expresses the psychological factor of the status quo in their decision making. Thus, the conflict between the values of risk and ethical values generates indecision is an aversion to conflict that is manifested by indecision. Ethics is seen as a conceptual or virtual, and thus not firmly anchored, produced, and not internalized in thought patterns. We find that subjects negotiate with ethics. Subjects do not choose ethics as an evaluation criterion transcending their decisions to invest. They will not focus on sustainable investment in favor of ethics at the expense of maximizing profits.