

Analysis Papers

The decision process for ethical investment

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Abstract While ethics and utility maximisation in economics seem mutually exclusive, ethics has recently become an issue in financial markets. The market demand for ethical investment is increasing, suggesting that investment decisions are influenced both by financial and moral considerations. Therefore, marketing strategies for ethical investment are needed. First designed for describing ethical decision processes in business organisations, the issue-contingent model of ethical decision making in organisations is applied in the present study to explain ethical investment decisions. Using a questionnaire, 286 participants completed items regarding one of four investment scenarios of companies differing in the morality of their business conduct. Results show that the issue-contingent model is suitable to describe ethical investment decisions. High perceived moral intensity led to the recognition of the moral issue and positively influenced the making of a moral judgment. For marketing these findings imply an increase of perceived moral intensity by vivid descriptions of companies' business conduct.

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INTRODUCTION

Ethics and financial investment may seem like incompatible terms. The economy mainly is

driven by financial profit; in a global market, low production costs and high turnover are often defined as the most important business objectives. Moral considerations seem to stand in contrast to economically efficient production. Nevertheless, ethical investment is becoming increasingly popular in financial markets; investors pave the way for ethics into business by supporting companies that

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meet investors' ethical values. But how do investors decide to invest ethically? This paper sheds light on investment decision processes by referring to the issue-contingent model of ethical decision making in organisations¹ and identifies sources for the development of marketing strategies for ethical investment.

ETHICAL INVESTMENT

Consensus on the definition of ethical investment does not exist.² Ethical investment, also called socially responsible investment, sustainable investment, or green investment, stems originally from 19th-century religious groups in the United States. These groups wanted to invest according to their morals³ and did not allow shares of companies whose business conduct conflicted with their morals in their portfolio. Lewis *et al.*⁴ define ethical investment as deliberately not investing in companies and funds according to certain negative ethical criteria. On the other hand, ethical investment also means investing in companies or funds that guarantee compliance to investors' particular positive ethical criteria. Negative ethical criteria are, for example, the production and usage of nuclear power or child labour;⁵ examples of positive ethical criteria are economising energy or fair trade with the Third World. In the present paper, we refer to ethical investment as defined by Lewis and colleagues.⁴

According to neoclassical economic assumptions, the relevant criteria of a certain investment for investors are expected return and risk. Investment decisions are made rationally and selfishly focusing on financial benefits. Moral considerations would introduce inefficiency by reducing the number of investment options.⁶ In line with portfolio theory,^{7,8} moral considerations would either increase risk or reduce profitability of the portfolio, making it less efficient than a conventional portfolio with the single aim to maximise profit. According

to neoclassical economic theory, ethical investment should not prevail in financial markets. Nevertheless, the market for ethical investment is expanding in Europe,⁹ and moral considerations are taken into account in portfolio management.¹⁰ Thus, in addition to financial benefits, moral considerations also influence investment decisions.

These non-financial influence factors on ethical investment decisions, like values and sociodemographics, were identified in empirical studies. Ethical investors live a lifestyle consistent with their values.¹¹ Such individuals place a higher value on ethical issues than conventional investors do,¹² and they are especially interested in environmental issues and labour relations.¹³ These interests are also expressed by their donations to charities, such as Greenpeace and Amnesty International.¹⁴ In an experimental approach, Lewis and Webley¹⁵ showed that green attitudes are especially important for the interest in ethical investments. Ethical investors' social and caring engagement becomes manifest also in their choice of professions in education and the health sector.¹⁴ They are even willing to sacrifice return in order to adhere to their values.^{13,16}

Additionally, gender and age are related to ethical investment. For example, the percentage of women who are interested in ethical investment is higher than the percentage of female conventional investors.¹⁷ Concerning findings on age and income, some studies^{13,17} argue that younger and better-educated investors prefer to put their money in ethical investments, while other studies¹² state that ethical investors are of the same age and education as conventional investors.

Other factors influencing ethical investment decisions are, for example prior performance of ethical investments and the ethical investment market sentiment. Experimental studies show that high returns increase demand for ethical investment.¹⁵ In particular, ethical investors respond to high returns of ethical investments by demanding more additional ethical investment options

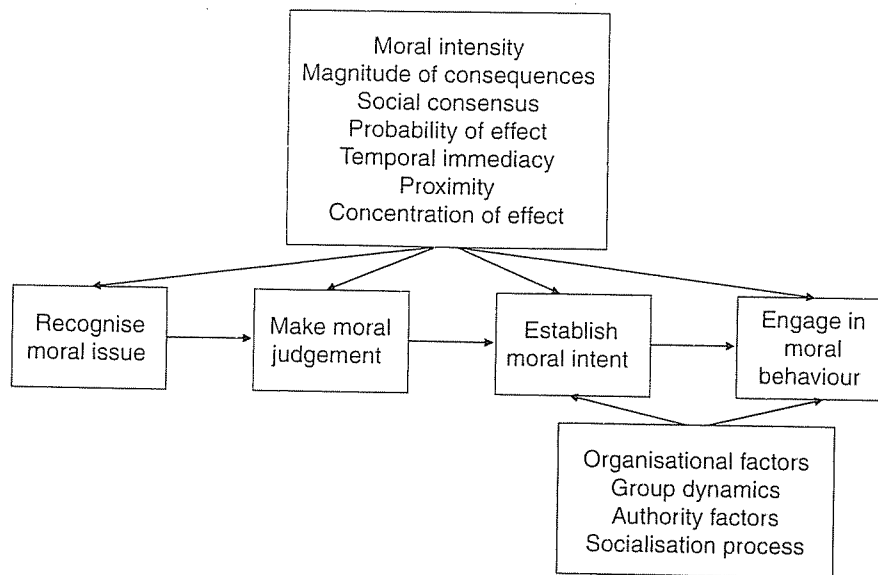


Figure 1 The issue-contingent model of ethical decision making in organisations (Jones,¹ p. 379)

than conventional investors.¹⁹ Although good performance improves demand, experimental studies^{20,21} report that poor performance does not increase offers for sale. On the contrary, poor performance prompts a stronger disposition effect for ethical investors. Concerning market sentiment, it is shown experimentally that scandals revealing immoral business conduct of ethical companies scare ethical investors away and decrease demand for ethical investment.²⁰

Empirical findings showed insular knowledge of factors influencing the ethical investment decision process, but a model integrating this knowledge has not been generated yet.

ISSUE-CONTINGENT MODEL OF ETHICAL DECISION MAKING IN ORGANISATIONS

A theoretical model suitable for describing ethical investment decisions is the issue-contingent model of ethical decision making in organisations.¹ The issue-contingent model is based on the four-component model designed by Rest.²² Rest assumes that moral agents first (i) recognise the moral issue, then they (ii) make a moral judgment, and (iii) establish moral intent. Finally, they (iv)

engage in moral behaviour (Figure 1). The second component in the decision process is related to Kohlberg's²³ six stages of cognitive moral development, a psychological approach to human development. Thus, moral judgments differ with the stage of moral agents' level of moral development. The four-component model postulates a sequential development with one component developing after the previous one having matured. For example, moral agents cannot establish moral intent before they have recognised the moral issue and have made a moral judgment.

In the issue-contingent model, the four components are influenced by moral intensity and organisational factors. According to Jones,¹ ethical issues can be described by the factors of moral intensity. Moral intensity summarises six different factors (Figure 1): (a) magnitude of consequences, (b) social consensus, (c) probability of effect, (d) temporal immediacy, (e) proximity and (f) concentration of effect. (a) Magnitude of consequences 'is defined as the sum of the harms (or benefits) done to victims (or beneficiaries) of the moral act in question' (Jones¹, p. 374). Thus, the more serious the consequences of a certain behaviour, the higher the moral intensity is. (b) Social consensus 'is defined

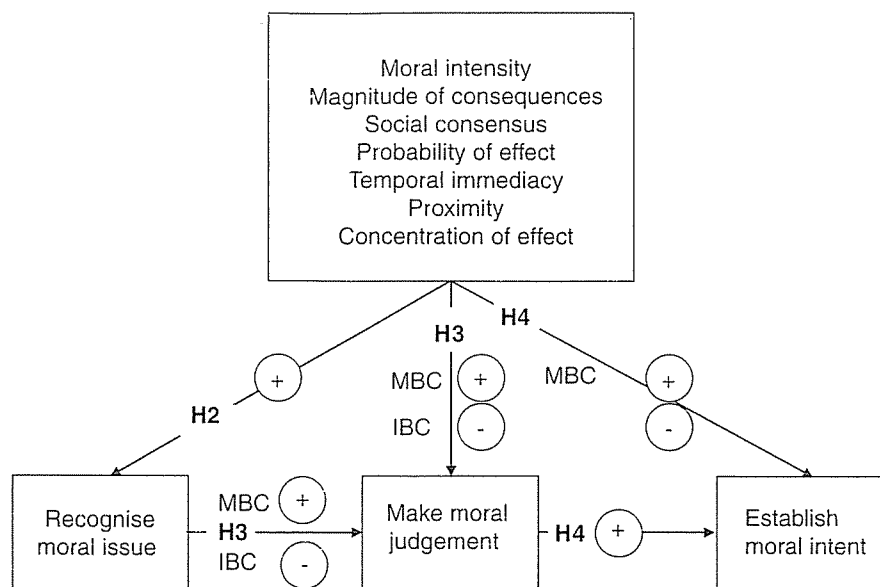


Figure 2 Hypothesised interrelations in the issue-contingent model. *Note:* MBC ... companies of moral business conduct, IBC ... companies of immoral business conduct; H2-4 ... hypothesis 2-4

as the degree of social agreement that a proposed act is evil (or good)' (Jones¹, p. 375). Therefore, the higher the degree of social agreement, the higher the moral intensity is. (c) Probability of effect 'is a joint function of the probability that the act in question will actually take place and the act in question will actually cause the harm (benefit) predicted' (Jones¹, p. 375). Consequently, the more probable a consequence increases the moral intensity. (d) Temporal immediacy 'is the length of time between the present and the onset of consequences of the moral act in question' (Jones¹, p. 376). Thus, the shorter the time lag between the behaviour and consequences, the higher the moral intensity is. (e) Proximity is defined as 'the feeling of nearness (social, cultural, psychological, or physical) that the moral agent has for victims (beneficiaries) of the evil (beneficial) act in question' (Jones¹, p. 376). Therefore, the nearer the moral agents and affected people are to each other, the higher the moral intensity is. (f) Concentration of effect 'is an inverse function of the number of people affected by an act of given magnitude' (Jones¹, p. 377). Thus, the fewer people affected by a certain consequence increases the moral

intensity; and the more people are affected by the same certain consequence decreases the moral intensity.

Organisational factors in the issue-contingent model are based on Trevino's²⁴ and Ferrell and Gresham's²⁵ approaches to marketing ethics. Three-sub-factors are distinguished (Figure 1): group dynamics, authority factors, and socialisation processes. These organisational aspects concurrently influence establishing moral intent and engaging in moral behaviour. In the present study, individuals' investment decisions are investigated. Therefore, organisational factors are not taken into account.

Parts of the issue-contingent model were tested empirically.²⁶⁻²⁹ Sub-factors of moral intensity were found to influence decision processes. Additionally, evidence was found for the interdependence between the components of the decision process.

It is the aim of the present paper to analyse investment decisions by applying the issue-contingent model of ethical decision making in organisations.¹ (1) We examine if moral intensity is constituted by the six sub-factors: magnitude of consequences, social consensus, probability of effect, temporal immediacy, physical proximity, and

concentration of effect. (2) We investigate whether or not moral intensity influences the first component, recognition of the moral issue, that is, if there is a moral issue to think about, namely the purchase of shares of companies engaging in moral and immoral business conduct. It is expected that the larger the moral intensity, the more likely it is that share purchases are perceived as a moral issue. Progressing with the decision process, (3) we try to prove whether or not moral intensity and the first component, recognition of the moral issue, influence the second component, making of a moral judgment. Finally, (4) we examine whether or not moral intensity and the second component, making a moral judgment, influence the third component, intention to buy shares. According to the definition of ethical investment, the effects are distinguished for companies of moral business conduct and companies of immoral business conduct. The hypotheses are graphed in Figure 2.

METHOD

Participants

Overall, 286 participants (144 females and 142 males) completed a questionnaire developed to test the issue-contingent model for investment decisions. Age ranged from 18 to 93 years with an average age of 42 years ($M = 41.68$, $SD = 18.38$). Eighty-two participants had invested in shares, of whom 55 had invested conventionally, 12 had invested ethically, and 26 were not sure if they had invested ethically. Fifty-seven participants were members of, or donors to at least one charity.

Material and procedure

The questionnaire had been tested for its clarity in a pre-study and consisted of 25 items. It took 15 min to complete the questionnaire. First, the participants read a scenario that prompted them to imagine that

they had inherited a sum of money and shares of a carpet manufacturer. Secondly, they found a description of the manufacturer's business conduct. All together, there were four different company descriptions (see Appendix A) presented to independent samples. Company descriptions differed in morality of business conduct. Company A was described as accomplishing a highly effective education programme for disadvantaged children (very moral), company B was represented as realising a similar but less effective programme (slightly moral). Company C was described as employing children for less than an hour per week and keeping them from education (slightly immoral), Company D was represented as also employing children but to a much greater extent, that is, 75 h per week (very immoral). Thirdly, participants were asked to consider if they would like to invest more money in the carpet manufacturer. They completed 16 items relating to the factors of the issue-contingent model (1): magnitude of consequences (two items; Cronbach- $\alpha = 0.57$), social consensus (two items; Cronbach- $\alpha = 0.80$), probability of effect (two items; Cronbach- $\alpha = 0.50$), temporal immediacy (two items; Cronbach- $\alpha = -0.23$), proximity (two items; Cronbach- $\alpha = -0.11$), concentration of effect (two items; Cronbach- $\alpha = 0.04$), recognise the moral issue (one item), make a moral judgment (two items; Cronbach- $\alpha = 0.76$) and establish moral intent (one item). As reliability of the moral intensity sub-factors temporary immediacy, proximity, and concentration of effect was not sufficient, the following analysis uses only the positive items that meet the objectives of the model more effectively than the negative ones. Two additional items served as a manipulation check measuring the degree of morality of the companies, and seven items were collected for sociodemographics (age, gender, education, monthly net income, possession of investment, possession of ethical investment, donations to charities). Scales and items are displayed in Table 1.

Table 1 Scales and items of the questionnaire

Scales and items	Companies of moral business conduct						Companies of immoral business conduct					
	Company A		Company B		Company C		Company D		Company D		Total	
	M	SD	M	SD	M	SD	M	SD	M	SD	M	SD
<i>Manipulation check</i>												
1.1 Overall, my investment in the carpet producing company is moral.	5.88	1.14	5.15	1.70	2.64	1.88	2.54	1.78	2.21	4.09	1.78	2.21
1.2 Overall, my investment in the carpet producing company is immoral.	1.71	1.09	2.46	1.70	5.13	1.98	5.46	1.67	2.30	3.66	1.67	2.30
<i>Scale magnitude of consequences</i>												
2.1 My investment has great impact on other people.	4.40	1.49	4.07	1.48	3.93	1.76	4.45	1.57	1.58	4.21	1.57	1.58
2.2 My investment has low impact on other people. (recoded)	4.28	1.80	4.03	1.87	3.85	1.94	4.53	1.76	1.85	4.17	1.76	1.85
	4.47	1.71	4.10	1.81	4.03	2.04	4.33	2.04	1.90	4.22	2.04	1.90
<i>Scale social consensus</i>												
3.1 My investment in general is approved by society.	5.50	1.20	4.81	1.53	2.89	1.59	2.97	1.59	1.86	4.07	1.59	1.86
3.2 My investment in general is disapproved by society. (recoded)	5.18	1.43	4.63	1.72	2.57	1.73	2.90	1.77	1.99	3.84	1.77	1.99
	5.78	1.39	4.95	1.81	3.23	1.84	3.04	1.82	2.06	4.28	1.82	2.06
<i>Scale probability of effect</i>												
4.1 My investment influences with great probability other people.	4.90	1.66	4.50	1.58	4.38	1.54	4.30	1.73	1.63	4.52	1.73	1.63
4.2 My investment influences with low probability other people (recoded)	4.97	1.96	4.70	1.95	4.58	2.01	4.46	2.03	1.99	4.68	2.03	1.99
5 Temporal immediacy: My investment influences in a short time the future of other people.	4.85	1.64	4.30	2.01	4.18	2.01	4.10	2.09	1.96	4.35	2.09	1.96
6 Proximity: My investment affects people who live in a country next to me.	3.54	1.93	4.39	1.98	3.63	1.98	4.15	1.86	1.96	3.95	1.86	1.96
7 Concentration of effect: My investment influences very few persons very heavily.	3.27	2.03	2.58	1.58	2.33	1.80	3.43	1.98	1.89	2.89	1.98	1.89
8 Recognition of the moral issue: Whether I invest in the carpet manufacturer or not, is also a moral question.	4.26	1.84	3.59	1.88	3.78	2.05	3.93	2.06	1.96	3.88	2.06	1.96
	4.90	1.53	5.11	1.73	5.62	1.62	5.34	1.92	1.72	5.24	1.92	1.72
<i>Scale making a moral judgment</i>												
9.1 I have invested in the carpet manufacturer, because with that I meet my obligations towards other people.	4.72	1.44	4.28	1.77	3.03	1.63	2.80	1.66	1.81	3.73	1.66	1.81
9.2 I have invested in the carpet manufacturer, because all affected people take advantage of that.	4.38	1.69	3.95	2.04	2.68	1.74	2.61	1.75	1.97	3.43	1.75	1.97
10 Establishing moral intent: I would invest again in the carpet manufacturer.	5.06	1.67	4.61	1.90	3.38	1.92	3.02	2.05	2.06	4.05	2.05	2.06
	5.48	1.15	4.79	2.05	3.04	1.99	2.94	2.07	2.15	4.10	2.07	2.15

RESULTS

First, a manipulation check with participants' judgments on morality of the four companies was conducted. A one-way analysis of variance with the four companies as independent variable and morality judgments as dependents variable approved ($F(6, 276) = 31.364$, $p < 0.001$) that company A ($M = 5.88$, $SD = 1.14$), B ($M = 5.15$, $SD = 1.70$), C ($M = 2.64$, $SD = 1.88$) and D ($M = 2.54$, $SD = 1.78$) differed in perceived morality, and also differed in perceived immorality (A: $M = 1.71$, $SD = 1.09$; B: $M = 2.46$, $SD = 1.70$; C: $M = 5.13$, $SD = 1.98$; D: $M = 5.46$, $SD = 1.67$). *Post hoc* tests showed that companies A and B were not judged differently ($F(2, 146) = 2.204$, $p = 0.114$); also C and D were perceived as equally moral or immoral ($F(2, 138) = 0.926$, $p = 0.398$). As expected, the difference between companies A, B and companies C, D is significant ($F(2, 287) = 111.316$, $p < 0.001$).

The constitution of moral intensity by the six sub-factors

A factor analysis, checking whether moral intensity is constituted by the six sub-factors, showed that moral intensity consists of three factors (Table 2). The first factor comprised proximity and concentration of effect, the second factor consisted of magnitude of consequences and probability of effect, and the third factor was composed of social consensus and temporary immediacy. Factor analyses were similar for all four companies. Nevertheless, as Jones¹ postulates moral intensity to be a single factor, in subsequent analyses moral intensity is incorporated as one factor averaged over the six sub-factors.

The impact of moral intensity on the recognition of the moral issue

The impact of moral intensity on the recognition of the moral issue was proved by an ordinary least squares (OLS) regression (Table 3, Figure 3). The results confirmed

Table 2 Factor loads of moral intensity components and explained variance of factors

Factors	Companies of moral business conduct									Companies of immoral business conduct								
	Company A			Company B			Company C			Company D			Total					
	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3			
Explained variance	40.573	19.700	16.083	31.306	27.736	16.321	32.572	20.052	17.183	33.314	22.664	19.164	32.933	22.543	16.713			
Magnitude of consequences	0.684	-0.490	0.164	-0.043	0.848	-0.084	0.521	0.590	-0.109	0.614	0.533	-0.235	0.560	0.586	-0.103			
Social consensus	0.533	-0.303	0.038	0.005	0.544	0.571	-0.001	-0.022	0.918	0.007	0.455	0.697	0.213	0.369	0.636			
Probability of effect	0.706	-0.419	0.177	-0.171	0.795	-0.264	0.242	0.816	0.176	0.439	0.648	-0.370	0.436	0.706	-0.129			
Temporal immediacy	0.176	0.491	0.846	0.500	0.018	0.662	0.360	-0.282	0.315	0.397	0.161	0.666	0.302	-0.261	0.711			
Proximity	0.790	0.485	-0.133	0.929	0.081	-0.074	0.880	-0.225	0.082	0.717	-0.574	0.146	0.816	-0.433	-0.033			
Concentration of effect	0.728	0.444	-0.414	0.857	0.099	-0.366	0.849	-0.241	-0.201	0.870	-0.307	-0.078	0.818	-0.345	-0.256			



Table 3 OLS regression results; whether the issue-contingent model of ethical decision making can explain investment behaviour

	Companies of moral business conduct			Companies of immoral business conduct			Total						
	Company A		p	Company B		p		Company C		p	Company D		p
	β	R^2		β	R^2			β	R^2		β	R^2	
Dependent variable: recognition of the moral issue	$R^2=0.007$, $F(1, 65)=0.490$, $p=0.487$, $n=66$	$R^2=0.060$, $F(1, 77)=4.880$, $p=0.030$, $n=78$	0.487	$R^2=0.054$, $F(1, 65)=3.715$, $p=0.058$, $n=66$	$R^2=0.083$, $F(1, 66)=6.010$, $p=0.017$, $n=67$	0.058	$R^2=0.025$, $F(1, 279)=7.006$, $p=0.008$, $n=280$	0.157	0.008	0.017	0.008		
Moral intensity	-0.086	0.244	0.030	0.233	0.289	0.058	0.157	0.008	0.017	0.008			
Dependent variable: making a moral judgment	$R^2=0.299$, $F(2, 63)=13.418$, $p<0.001$, $n=65$	$R^2=0.183$, $F(2, 76)=8.511$, $p<0.001$, $n=78$	0.003	$R^2=0.117$, $F(2, 64)=4.235$, $p=0.019$, $n=66$	$R^2=0.128$, $F(2, 64)=4.716$, $p=0.012$, $n=66$	0.007	$R^2=0.019$, $F(2, 276)=2.744$, $p=0.066$, $n=278$	0.129	0.034	0.450	0.207		
Moral intensity	0.322	0.295	0.007	-0.012	-0.092	0.918	0.129	0.034	0.450	0.207			
Recognition of the moral issue	0.479	0.246	0.024	-0.339	-0.323	0.007	-0.076	0.009	0.009	0.009			
Dependent variable: establishing a moral intent	$R^2=0.241$, $F(2, 63)=10.022$, $p<0.001$, $n=65$	$R^2=0.330$, $F(2, 77)=18.943$, $p<0.001$, $n=79$	0.227	$R^2=0.366$, $F(2, 63)=18.186$, $p<0.001$, $n=65$	$R^2=0.266$, $F(2, 64)=11.572$, $p<0.001$, $n=66$	0.157	$R^2=0.399$, $F(2, 276)=91.534$, $p<0.001$, $n=278$	-0.024	0.065	0.065	0.604		
Moral intensity	0.139	0.144	0.157	-0.143	-0.204	0.161	-0.024	0.065	0.065	0.604			
Making a moral judgment	0.435	0.503	<0.001	0.572	0.439	<0.001	0.634	<0.001	<0.001	<0.001			

Note: Significant values are in italic

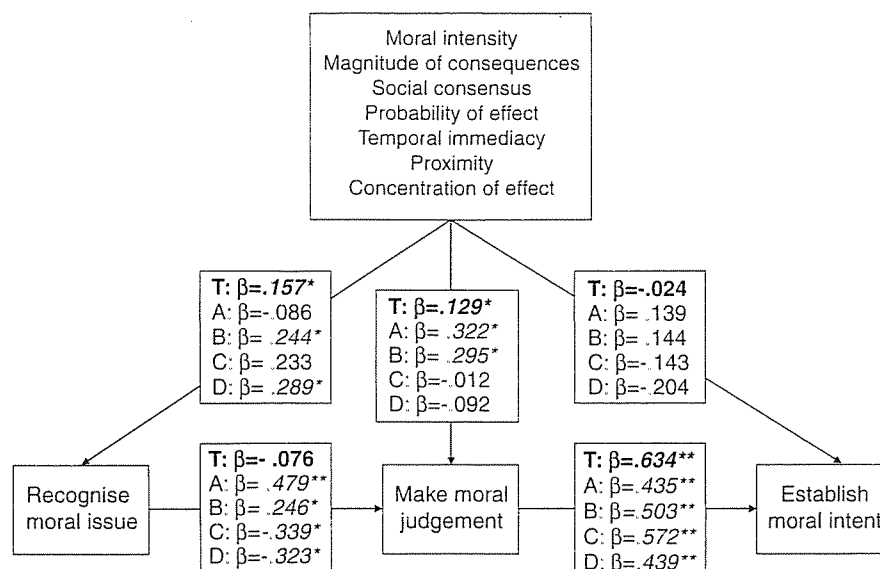


Figure 3 Interrelations and Beta-values in the issue-contingent model for the four companies.
 Note: Beta-values derived from three different OLS regressions. Statistical values are presented in Table 3. T ... Total, A ... company A of very moral business conduct, B ... company B of slightly moral business conduct, C ... company C of slightly immoral business conduct, D ... company D of very immoral business conduct; * significant with $p < 0.05$, ** significant with $p < 0.001$

that moral intensity ($\beta = 0.175$, $p = 0.008$) had a positive impact on the recognition of the moral issue ($R^2 = 0.025$, $F(1, 279) = 7.006$, $p = 0.008$, $n = 280$). But going into detail for each company, these results were confirmed for data of companies B and D and were not confirmed for data of companies A and C. Thus like hypothesised, moral intensity positively, but only partially, influences the recognition of the moral issue in investment decisions.

The impact of moral intensity and the recognition of the moral issue on the making of a moral judgment

An OLS regression (Table 3, Figure 3) showed only a tendency and not a significance ($R^2 = 0.019$, $F(2, 276) = 2.744$, $p = 0.066$, $n = 280$) that moral intensity and the recognition of the moral issue influence the making of a moral judgment. This tendency became significant in the more detailed analysis for each company. The impact of the recognition of the moral issue was positive for data from companies of

moral business conduct (companies A and B) and negative for companies of immoral business conduct (companies C and D). The effect of moral intensity was positive for data of companies of moral business conduct and negative for data of companies of immoral business conduct. Therefore like hypothesised, for companies of moral business conduct, making a moral judgment was positively influenced by moral intensity and the recognition of the moral issue at hand. For companies of immoral business conduct, only the negative impact of the recognition influenced the judgment making. The hypothesised negative influence of moral intensity was not proved.

The impact of moral intensity and making a moral judgment on establishing a moral intent

A third OLS regression (Table 3, Figure 3) analysing the impact of moral intensity and the making of a moral judgment on establishing a moral intent demonstrated that making a moral judgment ($\beta = 0.634$, $p < 0.001$) positively influenced establishing a

moral intent, but that moral intensity ($\beta = -0.024$, $p = 0.604$) did not have an impact ($R^2 = 0.399$, $F(2, 276) = 91.534$, $p < 0.001$, $n = 278$). The influence of making a moral judgment was confirmed by data for each company, but moral intensity did not have an effect. Thus, establishing a moral intent, that is, whether or not to invest in a certain company, was positively influenced by the previously established moral judgment, as hypothesised. The hypothesised influence of moral intensity was not proved.

DISCUSSION

The findings of the current study prove that the issue-contingent model of ethical decision making in organisations¹ can explain ethical investment decisions. Moral intensity is constituted by three factors (proximity and concentration of effect; magnitude of consequences and probability of effect; social consensus and temporary immediacy). This contradicts an empirical study²⁹ that found a two-factor solution (magnitude of consequences, probability of effect, temporal immediacy, and concentration of effect; proximity and social consensus). The difference to the current study might be due to the investigated moral issues. Singhapakdi and colleagues observed decision making in marketing, while the current paper focuses on ethical investment decisions.

The influence of moral intensity was confirmed for the first two stages of the decision process, the recognition of the moral issue and for the making of a moral judgment, lending further support to existing research.^{26,28,29} The significant influence in the second decision stage on making a moral judgment, however, depended on the morality of companies' business conducts. Moral intensity positively affected making a moral judgment for companies with moral business conduct, while it did not have an effect for companies with immoral business conduct.

The influence of moral intensity on the third component, establishing a moral intent, was not confirmed; this contradicts earlier studies,^{28,29} which is probably due to the type of moral issue investigated. In the present study ethical investment was investigated, while earlier studies examined decision-making scenarios describing environmental pollution, product safety problems, unfair marketing practices, and exploitation of costumers' ignorance.

Results for the interrelation of the three components of the decision process, recognition of the moral issue, making a moral judgment, and establishing a moral intent, confirmed earlier findings.²⁸ The first component (recognition of the moral issue) interacted positively with the second component (making a moral judgment) for data from companies of moral business conduct and negatively for companies of immoral business conduct; and the second component, positively influenced the third component (establishing a moral intent).

The present study provides several opportunities for future research. Regarding the different influences of moral intensity for positive and negative moral issues, there is a chance to further investigate the issue-contingent model, especially in positive moral contexts, as we could not find evidence that such research has been undertaken. The fact that the influence of moral intensity on the third component (establishing a moral intent) was not confirmed, should also initiate further research. The first component could be a mediator between moral intensity and the third component. Finally, in the present study, like in other earlier studies (eg, May and Pauli²⁸), the fourth component of the decision process (engage in moral behaviour) was not tested. We believe that it is essential that future research integrate actual behaviour when testing the suitability of the issue-contingent model.

The findings of the present study have a practical impact for the marketing of ethical funds. In the first decision stage, when

potential investors seek out ethical investment, the extent of moral intensity depends on the expressive descriptions of a company's moral or immoral business conduct. It draws investors' attention to the benefits of ethical investment, supporting sustainable companies, and neglecting detrimental companies. In the second decision stage potential investors have realised that morality matters in investment decisions and consider whether it is morally good to invest in a certain fund. At this point, financial advisers should provide vivid descriptions of companies of moral business conduct that are included in a specific fund, because descriptions of companies of immoral business conduct do not have an effect. In the third decision stage the decision process is not influenced by moral or immoral company descriptions. Therefore, the first encounter with ethical investment seems especially important for marketing strategies.

In conclusion, the current study proves that the issue-contingent model¹ can serve to explain ethical investment decisions and provide insight into theoretical and practical application. Moral intensity, as the central part of the issue-contingent model, has an impact on the ethical investment decision process and should be considered when marketing ethical funds. We have shown that investment decisions are influenced by moral considerations, and thus explaining the seemingly unlikely compatibility between the terms ethics and investment.

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Appendix A

Scenarios (Translated from German)

Imagine that by an unexpected inheritance, you came into a large amount money, which you plan to invest in company shares. While you expect property growth, you also realise that with your investment, you support the activities of the company in which you have invested. You decide to invest into a carpet manufacturer.

Company A

The carpet manufacturer is a traditional company in South Europe. You know about the company, as you have followed its positive press in the media. It was reported that the UNO and other national and

international organisations have awarded the company prizes because of its dedication to children living nearby.

Each year, the carpet manufacturer puts 10 per cent of its profit at the disposal of ten children for their education. For eight years of school, the company assures that the education of these ten children is paid. It was shown that the company's promotion leads to an improvement of school achievement. After one year with large probability, the company-supported children exhibit better school achievements in comparison with non-supported children who also live next to the manufacturer.

Company B

The carpet manufacturer is a traditional enterprise in the Middle East. You know about the company, as you once read some positive news about it in the media. It was reported that a small association had awarded the company a prize because of its dedication to children living nearby.

Each year the carpet manufacturer puts 0.1 per cent of its profit at the disposal of 1,000 children for their education. For one month of school, it assures that the education of these 1,000 children is paid. It was shown that the company's promotion leads to an improvement of school achievement. After ten years with small probability, company-supported children exhibit better school achievements in comparison with non-supported children also living next to the manufacturer.

Company C

The carpet manufacturer is a traditional enterprise in the Middle East. You know about the company, as you once read some negative news about it in the media. It was reported that a small association had condemned the company because of its exploitation of children living nearby.

The carpet manufacturer increases its profit by 0.1 per cent each year by employing

1,000 children in its production. All these 1,000 children work 45 min per week at the manufacturer. It was shown, that this occupation in the company leads to a degradation of the school achievement. After ten years with small probability, employed children exhibit worse school achievements in comparison with non-employed children also living next to the manufacturer.

Company D

The carpet manufacturer is a traditional company in South Europe. You know about the company, as you have read a lot of negative news about it in the media. It was

reported that the UNO and other national and international organisations have condemned the company because of its exploitation of children living nearby.

The carpet manufacturer increases its profit by 10 per cent each year by employing ten children in its production. All these ten children work 75 h per week at the manufacturer. It was shown that this occupation in the company leads to a degradation of the school achievement. After one year with large probability, employed children exhibit worse school achievements in comparison with non-employed children also living next to the manufacturer.