
Social investing, ethical mind-sets, and nudges: A neuro-economic investigation

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Abstract

Investing into the financial markets has become increasingly complex in recent years, with a multitude of investment products and motives. With the rapid growth in social investing and social entrepreneurship, scholars recognise that investors and entrepreneurs often consider a wide range of social factors, in addition to financial return, when making their financial decisions. Pilaj (2017) has called for increased focus on testing these mixed financial and ethical motives of investors, and whether nudges can be effective in nudging investors towards social investments.

Behavioural economists argue that it is important to understand the complex economic and behavioural/psychological factors affecting social investors' decision-making. In this paper, we draw upon lessons from behavioural economics (and in particular, social preference theory) in order to develop neuro-economic tests of investors' social and financial mind-sets. We focus on two main research questions: a) How heterogeneous are (social-) investors, in terms of the unconscious weightings that they place upon financial and social returns? Can investors' mind-sets be placed upon a continuum from focussing on social returns, through mixed motivations/weightings, through to focussing on financial returns? b) Can investors be nudged along this continuum?

We address these two research questions by means of two neuro-experiments. We employ eye-tracking techniques to examine investors' attention to, and fixation on, social and financial aspects of financial market investment. In addition, we employ nudges in the form of images relating to positive and negative social behaviour. Our experiments demonstrate that a) investors can indeed be placed on the financial-social motivation continuum (and that there is heterogeneity in social-investors' motives along this scale), and b) investors can be nudged along the scale. Our experiments thus provide policy implications regarding nudges towards social investment. Practically, we suggest the development of a phone application that integrates real-time stock-tracking with nudges in order to inspire socially responsible investing; banks would play a key role in encouraging its download. Nudges can help to overcome the conflict between social and financial returns.
