



**VALUE SIMILARITY AND OVERALL PERFORMANCE: TRUST  
IN RESPONSIBLE INVESTMENT**

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## VALUE SIMILARITY AND OVERALL PERFORMANCE: TRUST IN RESPONSIBLE INVESTMENT

### ABSTRACT

Purpose: The research shows how overall performance can help foster trust in financial institutions. While a climate of mistrust amongst investors and the general public towards financial institutions is since recent turmoils on the financial markets, we believe that mutual funds adopting overall performance can help recover a climate of trust due to the implied balance between economic, social and environmental performance. More specifically, overall performance promotes values that are similar to investors' values and could be used by responsible investment funds if they want to contribute to the restoration of trust in investment funds.

Method: Using an innovative, experimental design, we test the effect of value similarity on the trust that investors have in the investment fund. This effect cannot be studied in isolation, which is why we compare it with the effects of financial performance and ethical labelling on trust.

Findings: We find that funds with similar values are perceived as more trustworthy by investors. Consequently, overall performance should be added to a fund managers toolbox if she wants to foster trust in her fund. The effect of financial performance on trust applies only when the investor has no other information regarding the fund. As for the ethical labelling of funds, it has no effect on trust.

Research implications: Our findings encourage research that aims to develop a comprehensive approach of integrated overall performance focusing on financial and extra financial values. Bonnet et al. (2016) field work on socio-economic management and Naro & Travaillé (2016) work on management controllers provide promising examples in this regard.

Practical implications: Investment funds can acquire an edge by communicating on overall performance and the specific values of their target investors. Merely labeling funds as ethical is not sufficient to increase trust.

Social implications: Increasing similarity in values to investors and adopting overall performance in investment funds will increase investors trust. Trust contributes to social capital and allows societies to create flexible large scale businesses needed to be competitive in a global environment.

Originality: Using an innovative experimental methodology we show that the underlying factor of overall performance on trust in investment funds is value similarity. We provide researchers and practitioners with insight about the underlying mechanisms of the effect of overall performance on trust.

**Keywords:** *Responsible Investment, Overall Performance, Trust, Value Similarity*

**Article classification:** Research paper

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## 1- INTRODUCTION

The concept of overall performance is at the heart of the constitution of socially responsible investment (SRI). Considering environmental, social and governance-related issues (ESG) alongside classic financial considerations must not be used as a marketing tool for promoting investments. The inclusion of overall performance in SRI funds should rather be considered in the context of the general evolution of how organizations are influenced by societal changes. However, overall performance is in its very nature a bearer of information surrounding the future of the company, rather than merely financial performance. While the latter provides a managerial- oriented vision of a company, overall performance tracks strategic options of the leadership team, enabling analysts to base their assessments on the development potential of a company in a changing environment.

The concept of overall performance makes sense when one situates it in the context of the financial events that have occurred since 2008, which have established a general climate of distrust. This is especially true in the field of financial investments. Is it not reasonable to consider the stances taken by major asset management companies when they started developing and promoting SRI funds as a possible means of restoring trust, especially among younger generations of investors? Indeed, investors appear to be sensitive to the content of overall performance, as well as the holistic nature of the business it symbolizes. As we will see, these generations are no longer satisfied with simple ethical labeling, for it is insufficient to restore trust. Furthermore, merely displaying past financial performance seems insufficient for triggering investment in mutual funds today. For some reason, more than ever the precautionary wording “past performance is not indicative of future performance,” appears true, as market volatility is high.

Research has shown that trust is a complex notion. This is the case because of its subjective nature, as well as its multiple facets. For example, the issue of trust in an individual is different than trust in an institution. Nevertheless, we can assume that the context of trust leads decision makers to act. In this regard, recall the importance of contextual variables found in decision making theories (e.g. structural contingency, game theory, naturalistic theory). We therefore assume that trust is a contextual variable in decision making processes. In addition, trust is lost more easily than it is gained, and it takes time to develop (Schoorman et al. 2007; Mayer et al. 1995). How then can we assess the sustainability of the incredibly complex concept of trust in financial

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3 investments? If ethical labeling and past performance of mutual funds are no  
4 longer sufficient, it is then necessary to go further and examine the processes of  
5 construction and management of these funds. The construction and management  
6 of an SRI background is largely based on declarative information, which raises  
7 questions regarding the veracity of extra-financial information used, and  
8 therefore extends beyond the moral values actually held by the fund. Indeed, the  
9 reliability of extra-financial information is not comparable to the reliability of  
10 financial information produced within a strict framework. The latter giving rise  
11 to regulatory controls, and breaches and fraud can result in penal sanctions .  
12 Therefore, equal treatment of these two categories of information is questionable.  
13 In order to promote the use of reliable information in the management of SRI  
14 funds, extra-financial analysts could establish a network of contacts with  
15 management controllers of companies they consider for investments. This is  
16 especially the case, given that management controllers seem to demonstrate  
17 interest in overall performance (Naro & Travaillé 2016). However, the same  
18 study indicates that management controllers are mostly confined to financial  
19 performance, both in their missions and tools, which leads to a decoupled  
20 approach to overall performance. This decoupled approach is not necessarily  
21 appropriate for the extra-financial analysts. Bonnet et al. (2016) study, based on  
22 socio-economic analysis, provides a monitoring instrument for integrated overall  
23 performance, aimed at management controllers, which could facilitate their  
24 collaboration with analysts, and thus improve the accuracy of financial  
25 information and complement the non-financial data collected.

26  
27 We argue that in order to restore confidence, corporate information  
28 must not only be reliable, but must also contain moral values similar to those of  
29 investors (Mayer et al. 1995; Schoorman et al. 2007). The subject of this article  
30 is to provide an experimental value analysis of the similarities among trust  
31 between investors and mutual funds. Thus, in order to address the complexities  
32 of trust-related situations, we will refer to values. Following research that finds  
33 trust is the product of value similarities between trusters and trustees, we shall  
34 more specifically test the effects of similarity in values between personal values  
35 of an investor and values displayed by an investment fund. Accordingly, this  
36 article asks whether value similarity between an individual investor and a  
37 responsible investment fund promotes the trust necessary to select this  
38 particular fund.

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40 Our research contributes to the field of trust literature by providing  
41 empirical validation of the effects of value similarity in a new field. It may  
42 further guide investment funds that report to retail investors, while helping  
43 highlight the values that guide them. A more sustained interest by individual  
44 investors may thus enhance the growth of ESG funds supported mainly by  
45 institutional investors in France.

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47 By focusing on the question of value similarity, we investigate a  
48 particular point in the long path from construction of a mutual fund to investor  
49 subscription.

### 50 51 *1.1. SOCIALLY RESPONSIBLE INVESTMENTS*

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SRI funds include environmental, social or governance (ESG) related extra-financial criteria, in their portfolio selection process. While it originally was intended to represent religious moral considerations (Van Cranenburgh et al. 2014) and even though SRI fund managers are often “smiled upon by their mainstream colleagues” (Knack & Keefer 1997), demand is at hand. The total amount of money invested in SRI has known important growth rates, both in the United States, where at the beginning of 2014 a total of \$6.57 trillion is involved in socially responsible investment (USSIF 2014), and in Europe where it is estimated to cover (a minimum of) about 11% (2 trillion) of all European professionally managed assets (EUROSIF 2012). In The United States, Europe and Australia socially responsible investment growth rates are higher than growth rates of traditional investments. In the Unites States from 1995 to 2014, the SRI universe has increased tenfold, or 929 %, a compound annual growth rate of 13.1 % (USSIF 2014).

The positive effects of adopting overall performance policies on trust is well documented in some sectors. In recent polls, for example, people were asked what measures a business could take in order to restore its trustworthiness. Amongst the top answers were: “treating employees well”, “having transparent and honest business practices”, “communicating frequently and honestly” and “making progress on environmental initiatives”. Those answers all belong to the field of corporate social responsibility. In comparison, answers that topped the ranking some years earlier (“increasing profitability and performance”, “increasing shareholder value” or “protecting profit margins”) referred to financial aspects (Trust & Executive 2011).

Experimental data from consumer and organizational research paints a similar, but somewhat more precise picture. Bews & Rossouw (2002) demonstrated that managers could influence trust by adopting a set of ethical interventions: procedural transparency, trust training, adequate communication or improved employee care. In addition, marketing studies have demonstrated that social initiatives of companies result in positive affective, cognitive, and behavioral responses by consumers (Brown & Dacin 1997; Marcillac 2008; Sandberg et al. 2009; Nilsson 2008).

Little is known, though, about the effects of social responsibility of investment funds in search of a overall performance on trust. Our study fills this gap, focusing on the generation of future investors: University students and young adults.

### 1.2. THE KEY FEATURE OF TRUST IN SOCIALLY RESPONSIBLE INVESTMENT FUNDS: VALUE SIMILARITY

In line with the data reviewed above, we predict a positive effect of moral values on perceived trustworthiness of investment funds. We further predict that the critical factor for the effect of socially responsible investment funds on perceived trustworthiness will be the *similarity of values* between a given fund and a given investor.

*Value similarity* is one of the most common features of academic models of trustworthiness. In the Salient Value Similarity model (Siegrist et al. 2000) shared values are the basis for trust. Mayer et al. (1995) defined integrity as the perception that the trustor adheres to a set of principles acceptable to the trustee, and other models introduced very similar constructs (Guiso et al. 2008;

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3 Hoepner & Mcmillan 2009; Mackenzie & Lewis 2009).

4 The positive effects of value similarity on trust are documented in many  
5 studies. For example, shared values between automobile retailers and automobile  
6 suppliers (Mishra 1996), or between top management and employees (Enz  
7 1988), are beneficial to mutual trust. Value similarity also precedes social trust  
8 for products such as pesticides, nuclear power, and artificial sweeteners (Siegrist  
9 et al. 2003), for the perception of geographic cancer clusters (Siegrist et al. 2001)  
10 and for electromagnetic field risks (Siegrist et al. 2003).

11 We believe that value similarity will outplay the effects of other known  
12 antecedent of trust in the context of investment funds. Among these other  
13 antecedents is ability (Mayer et al. 1995) or competence (Mishra 1996). With  
14 regard to its perceived trustworthiness, however, we think that the potential  
15 effects of ability are limited for a very practical reason: Investment fund  
16 marketing is already almost exclusively based on financial performance, and  
17 funds that lose money are unlikely to survive.

18 Another antecedent of perceived trustworthiness in benevolence (Mayer  
19 et al. 1995; McKnight et al. 2002) or warmth (Fiske et al. 2002). Benevolence,  
20 refers to the extent to which the trustee is believed to want to do good to the  
21 trustor, aside from egocentric profit motives. In the case of investment fund the  
22 “good” done to the trustor would be high return on his initial investment. Since  
23 mutual funds are legally bound through fiduciary duty (cf. Siegl (2011) for an  
24 approach to fiduciary duty in the socially responsible investment field), and  
25 because fund managers have contractual incentives for financial performance,  
26 benevolence in its current definition can be seen as a given (or in need of  
27 conceptual clarification) in the context of investment funds.

28 Lastly, the organizational implementation of value similarity is  
29 straightforward in mutual fund marketing, as well as in the investment decision  
30 process. From a practitioner’s perspective, value similarity is directly actionable  
31 in two steps. Once investors’ values are understood they can be used for positive  
32 or negative investment screening, or active engagement techniques. Then, in a  
33 second step, communication about those values that are similar to the values of  
34 investors can be honestly adopted in retail bank advisors sales pitches, in press  
35 campaigns and fund leaflets.

### 36 37 *1.3. A QUESTION OF VALUES*

38 Value similarity is one’s perception that the investment fund adheres to  
39 a set of principles similar to one’s own values. Our study presents young adults  
40 with hypothetical invest fund descriptions that have moral values more or less  
41 similar to their own values.

42 Our experiments use moral values adopted from the OECD Guidelines  
43 for Multinational Enterprises (Organisation for Economic Co-operation and  
44 Development (OECD) 2011). Those guidelines outline recommendations for  
45 responsible business and cover a large range of issues from labor and human  
46 rights, bribery and corruption to environmental concerns and information  
47 disclosure. Because of their extensive coverage of corporate social responsibility  
48 issues, and their general acceptance by the socially responsible investment  
49 community and government officials, the moral values presented in the  
50 experiments are drawn from the OECD Guidelines.

51 A weak interpretation of our definition of value similarity would expect  
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3 that because people generally adhere to moral values, any investment fund that  
4 show any moral values would be perceived as more trustworthy. A stronger  
5 interpretation is that not all moral values will increase trustworthiness in the  
6 same manner. The effect of the values promoted by a fund should depend on the  
7 idiosyncratic, personal values of each investor. We thus expect the perceived  
8 trustworthiness of a fund to be highly sensitive to the similarity of the values  
9 adopted by the fund and the personal moral values of the potential investor.

10 If this prediction holds, social responsibility cannot only be viewed as a  
11 mechanical labeling of funds that will increase investors' trust. Such use of  
12 social responsibility would, at best, have no effect at all and fail to restore  
13 investors' trust.

#### 14 15 16 1.4. COMPARISON VARIABLE

17 To better understand the relative importance of value similarity, we  
18 compare its effect on trustworthiness to that of *past performance* and *social*  
19 *labeling*. We include past performance as a comparison variable because of its  
20 ecological value. It is part of virtually every mutual fund description and varies  
21 within single funds (Carhart 2012), in between funds (Sharpe 1966) and single  
22 investors (Barber & Odean 2012).

23 We also compare the effect of value similarity to that of *social labeling*.  
24 Social labels are known to impact charity giving (Kraut 1973) and consumer  
25 choices (Loureiro & Lotade 2005). Yet, the underlying moral values of social  
26 labels are often loosely understood by investors and might not have the desired  
27 effect.

28 We test our predictions in an experimental study. We introduce an  
29 innovative manipulation of the similarity in values between our participants and  
30 hypothetical investment funds.

## 31 2. EXPERIMENTS

### 32 2.1. EXPERIMENT 1

#### 33 2.1.1. METHOD

34 Young adults (22 women and 16 men, mean age = 22, SD = 3) were  
35 recruited on the campus of Toulouse University and agreed to participate in the  
36 experiment. Participants did not receive compensation.

37 The experiment followed a 3 (similarity)  $\times$  2 (past performance)  
38 design. The experiment was conducted in individual sessions for each  
39 participant. Each session had two phases. Participants first judged different  
40 values relevant to responsible business conduct. These ratings were used to tailor  
41 individual values profiles for each participant. In Phase 2, participants rated the  
42 trustworthiness of investment funds descriptions based on those profiles.

43 The materials used to construct business ethics statements in Phase 1  
44 were randomly selected and adapted from the OECD Guidelines for Responsible  
45 Business Conduct: *Respect of workers rights; Respect of environmental*  
46 *concerns; Struggle against corruption; Conformity to national and international*  
47 *laws; Transparency; Respect of public security*. For each item, participants were  
48 asked "According to you, how important is the following statement for business  
49 ethics?" They responded on a 5-point scale anchored at *Not at all* and  
50 *Completely*. There were six target values in Phase 1, introduced in random order  
51 among a set of filler items.  
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3 In Phase 2 of the experiment, participants rated the trustworthiness of  
4 12 investment funds, whose format was adapted from the Securities and  
5 Exchange Commission prospectus requirements. The funds were profitable  
6 either 6 or 9 out of the last ten years. The value similarity with each participant  
7 was low, high, or unknown (no information about the moral values of the fund).  
8 Each fund description appeared twice during the experiment, with a manager of a  
9 different gender. The target funds appeared in random order among filler funds.  
10 Here is one example of a possible fund description:

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12 “Performance: profitable for **six** out of the last ten years. The fund  
13 received the following social responsibility ratings (5 being the best rating):

- 14 • Transparency of the selected companies = 4
- 15 • Respect of environmental concerns of the selected companies = 3
- 16 • Struggle against corruption of the selected companies = 5
- 17 • Respect of public security of the selected companies = 5
- 18 • Conformity to national and international laws of the selected  
19 companies = 1
- 20 • Respect of workers rights by the selected companies = 5

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22 Management: The manager is in business for 15 years. She graduated  
23 from an excellent business school.”

24  
25 Value similarity was manipulated by changing the values of the six  
26 social responsibility ratings. In the high similarity condition, these ratings were  
27 exactly identical to the ratings that the individual participant gave during Phase 1  
28 when asked about their importance. In the low similarity condition, these ratings  
29 were exactly opposed to the ratings that the individual participant gave during  
30 Phase 1 when asked about their importance (i.e., the rating in Phase 2 was 6  
31 minus the rating in Phase 1). In the control condition, no moral information was  
32 provided about the fund, whose descriptions merely stated that “The fund has not  
33 been evaluated by a social responsibility rating agency.” After each fund  
34 description participants answered the question “To what degree do you trust this  
35 fund?” on a 10-point scale anchored at *Not at all* and *Completely*.  
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### 38 39 2.1.2. MANIPULATION CHECK

40 To validate our manipulation of value similarity, we randomly selected  
41 the Phase 1 responses of five participants to the main experiment, together with  
42 the Phase 2 funds that were constructed for these particular participants in the  
43 low and high similarity conditions. We then recruited 111 additional participants  
44 (44 women, mean age = 29) who considered the Phase 1 responses and the Phase  
45 2 funds, and judged the similarity in values between participant (from Phase 1  
46 responses) and fund (from Phase 2 descriptions), on a 10-point scale anchored at  
47 *Not at all similar* and *Completely similar*. Our manipulation had the intended  
48 effect,  $F(2,110) = 29.39$ ,  $p < .001$ ,  $\eta^2 = .21$ .  
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## 2.1.3. RESULTS

Value	Mean	
Respect of workers' rights by the selected companies	4.7	0.5
Respect of environmental concerns of the selected companies	4.5	0.8
Struggle against corruption of the selected companies	4.3	0.8
Conformity to national and international laws of the selected companies	4.2	0.8
Transparency of the selected companies	4.1	1.1
Respect of public security of the selected companies	3.9	1.0

Table 1: Importance of responsible business conduct values, as rated by participants.

Descriptive statistics for Phase 1 of the experiment are shown in Table 1. As expected participants generally judged the values as important: Ratings for all items were well above the scale mean. Respect of workers rights and environmental concerns were, on average, judged most important by participants. Transparency and respect of public security, as well as respect of public security of the selected companies, came last in terms of average importance.

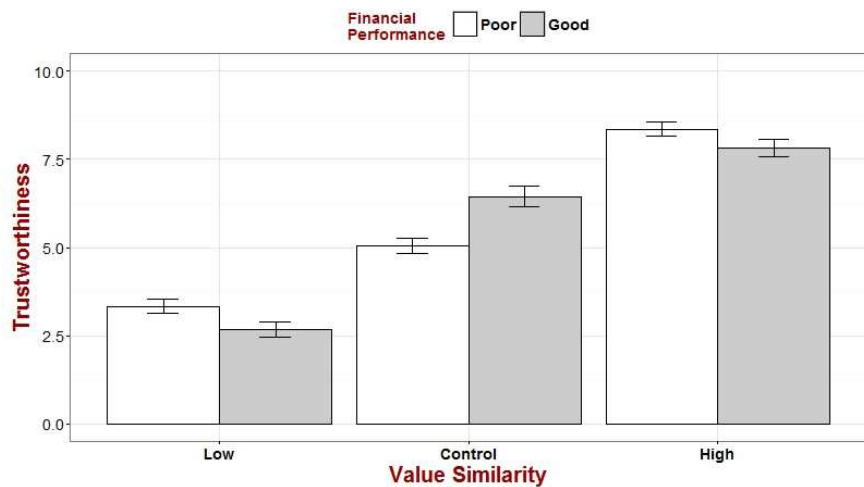


Figure 1: Trustworthiness of investment funds, as a function of past financial performance and similarity in values.

Figure 1 displays participants' trustworthiness ratings in Phase 2 of Experiment 1. As seen in Figure 1, information about past performance is decisive when no moral information is available about the fund: Funds that were profitable for 9 years are deemed more trustworthy than funds that were

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3 profitable for 6 years. As soon as ethical information is available, though, it  
4 plays a central role in judgments of trustworthiness. High value similarity  
5 increases trustworthiness, whereas low value similarity even decreases an  
6 investment funds trustworthiness.

7  
8 A  $3 \times 2$  analysis of variance with perceived trustworthiness as  
9 dependent measure (averaging the scores of the two presentations of each fund)  
10 confirmed the large role played by similarity in values. Similarity in values  
11 (*high, control, low*) and past financial performance (*good, poor*) were entered as  
12 repeated-measure predictors. As anticipated, this analysis detected a large main  
13 effect of similarity in values,  $F(2,37) = 151$ ,  $p < .001$ ,  $\eta^2 = .80$ . The  
14 analysis also detected an interaction between the two predictors, which appear to  
15 reflect the following result: Funds with 6-year profitability benefit more from  
16 high similarity in values, while funds with 9-year profitability are affected to a  
17 greater extent by low similarity in values,  $F(2,37) = 20$ ,  $p < .001$ ,  
18  $\eta^2 = .35$   
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21 Before we commit to an interpretation of this interaction, we wish to  
22 attempt to replicate it in Experiment 2.

23 Experiment 2 was designed to consolidate the effect of value similarity  
24 on perceived trustworthiness and to introduce social labeling as comparison  
25 variable. In addition, Experiment 2 addresses a potential methodological  
26 concern. In Experiment 1, participants who gave high ratings to all moral values  
27 were mechanically presented with low-similarity funds that scored low on all  
28 moral values. This means that at least for some participants, similarity was  
29 confounded with overall social responsibility ratings, which could result in  
30 undue amplification of the similarity effect. Experiment 2 uses a manipulation of  
31 similarity that allays this methodological concern.

## 32 2.2. EXPERIMENT 2

### 33 2.2.1. METHOD

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35 Young adults (26 women and 25 men, mean age = 27, SD = 8) were  
36 recruited through email and agreed to answer an online questionnaire.  
37 Participants did not receive compensation.

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39 The experiment followed a  $3$  (similarity)  $\times$   $2$  (ethical labeling)  
40 design. During Phase 1, participants expressed judgments about various values  
41 relevant to responsible business conduct. These judgments allowed to identify  
42 which among these values which were very important, moderately important, or  
43 not very important to each given participant. A computer program could then  
44 immediately generate fund descriptions whose values were more or less similar  
45 to that of the participant. In Phase 2, participants rated the trustworthiness of  
46 these funds.

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48 As for Experiment 1 the materials used in Phase 1 were randomly  
49 selected and adapted from the OECD Guidelines for Responsible Business  
50 Conduct: *Respect of workers rights; Respect of environmental concerns;*  
51 *Conformity to national and international laws; Transparency of the selected*  
52 *companies; Struggle for competitiveness and against price arrangements; supply*  
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*chain responsibility*. For each item, participants were asked "According to you, how important is the following statement for business ethics?" They responded on a 10-point scale anchored at *Not at all* and *Completely*. There were six target values in Phase 1, introduced in a random order among a set of filler items. To improve the accuracy of measurement, every question appeared twice during Phase 1. The average of the two responses yielded the subjective importance of each target value, for a given participant.

From these ratings, each value was assigned a tier of importance for each participant. A given participants' Tier 1 values consisted of the two values that she rated as the most important. Tier 2 values consisted of the two values that came next in terms of importance, and Tier 3 consisted of the two values that the participant rated as the least important.

In Phase 2 of the experiment, participants rated the trustworthiness of various investment funds. The funds were either labeled as *conventional* or *ethical*, and their similarity with the participant's values was either *low*, *moderate*, or *high*. We use the designation *ethical fund* because of its historical importance (Schueth 2003) and because it is still widely used (Sandberg et al. 2009). Here is one possible example of a fund description:

The fund is an ethical fund and is run by a manager from London. She made the fund profitable for the last eight years and made it best in class. Recently the fund was evaluated by an ethical fund rating agency and received excellent grades with respect to workers' rights and supply chain responsibility.

The label of the fund was manipulated by using either the word "ethical" or "conventional" in the first sentence of the description. The similarity in value between the fund and the participant was manipulated by changing the two aspects that the fund received excellent grades for: These were either the participant's Tier 1 values (high similarity), or her Tier 2 values (moderate similarity), or her Tier 3 values (low similarity). Each fund description appeared twice during the experiment, with a manager of a different gender. The target funds appeared in random order among filler funds. After each fund description participants answered the question "To what degree do you trust this fund?" on a 10-point scale anchored at *Not at all* and *Completely*.

### 2.2.2. MANIPULATION CHECK

In order to validate our manipulation of value similarity, we randomly selected the Phase 1 responses of five participants to the main experiment, together with the Phase 2 funds that were constructed for these participants in the low, moderate, and high similarity conditions. We then recruited 49 additional participants (24 women, mean age = 34) who considered the Phase 1 responses and the Phase 2 funds, and judged the similarity in values between Phase 1 responses and Phase 2 funds, on a 10-point scale anchored at *Not at all similar* and *Completely similar*. Our manipulation had the intended effect,  $F(2,48) = 15.22$ ,  $p < .001$ ,  $\eta^2 = .24$ .

## 2.2.3. RESULTS

Table 13 displays descriptive statistics for Phase 1 of the experiment. In addition to the average and standard deviations of the perceived importance of each responsible business value, Table 13 indicates the percentage of participants for whom this value was in Tier 1, Tier 2, and Tier 3. Even though individual rankings varied substantially (which is important for our manipulation), there was some degree of homogeneity in the Phase 1 judgments: Concerns for workers' rights and protection of the environment were often ranked as most important, whereas competitiveness and supply chain responsibility were often ranked as least important.

Value	Average importance	SD	Tier 1 (%)	Tier 2 (%)	Tier 3 (%)
Workers' rights	9.6	0.5	88	10	2
Environment	9.3	1.7	86	8	6
Conformity to laws	8.8	1.1	19	75	6
Transparency	8.2	1.5	2	86	12
Competitiveness	6.2	2.5	4	16	80
Supply chain	5.9	2.8	0	6	94

Table 2: Experiment 2. Participants' ratings of responsible business conduct values.

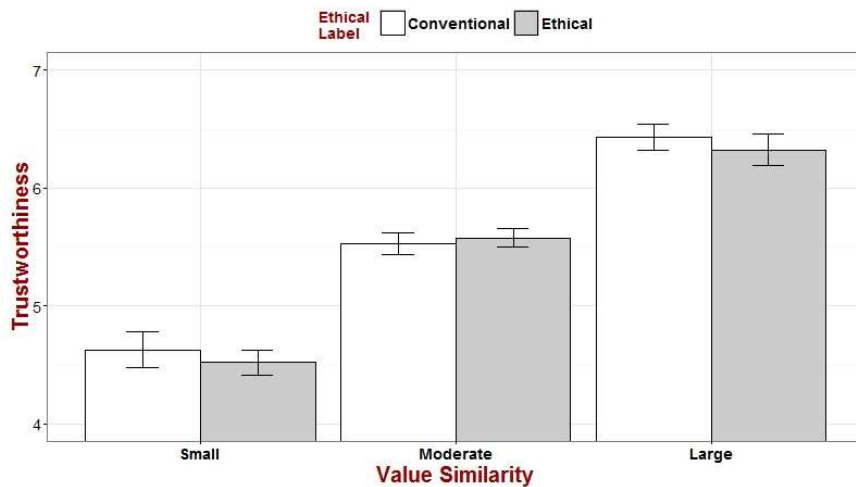


Figure 2: Experiment., Trustworthiness of conventional and ethical investment funds as a function of similarity in values

Figure 2 displays the trustworthiness ratings that participants gave in Phase 2 of the experiment, as a function of whether the fund was labeled ethical or conventional, and as a function of the similarity between the participant's

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3 values and that of the fund. Figure 2 suggests that value similarity played an  
4 important role in judgments of trustworthiness, whereas the label of the fund did  
5 not. Funds whose ethical strengths were values highly similar to that of the  
6 participant were rated as trustworthy, whereas funds whose values were not  
7 shared by the participants were rated as untrustworthy. Merely labeling a fund as  
8 “ethical”, in contrast, did not appear to affect its trustworthiness.

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10 These visual impressions are confirmed by a  $3 \times 2$  analysis of  
11 variance, where trustworthiness was entered as the dependent variable, and  
12 where similarity in values (high, moderate, low) and fund label (ethical,  
13 conventional) were entered as repeated-measure predictors. As could be expected  
14 from Figure 2, this analysis detected a main effect of the similarity in values,  
15  $F(2,50) = 71$ ,  $p < .001$ ,  $\eta^2 = .58$ , and no other significant effect.<sup>[1]</sup>

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17 It would thus appear that merely labeling a fund as “ethical” is not  
18 sufficient to increase its trustworthiness: Specific information is needed about  
19 which moral values the fund is known for. Furthermore, not all moral values  
20 increase trustworthiness by the same amount. Moral values shared by the  
21 individual assessing trustworthiness have the greatest impact.

22 Experiment 3 was designed to consolidate our comparison of the effect  
23 of similarity in values to that of past financial performance, but also to address a  
24 potential methodological concern with the protocol we have used in Experiments  
25 1 and 2. In Experiment 1 and 2 participants judged the importance of various  
26 moral values first, and then judged the trustworthiness of investment funds with  
27 profiles including information about moral values. While this method allowed to  
28 precisely tailor the fund descriptions to the values expressed by each individual  
29 participant, one concern is that it might prime participants to base their  
30 trustworthiness ratings on the ethical information. As a consequence, this method  
31 might lead to an overestimation of the impact of similarity in values. Experiment  
32 3 allays this concern by first asking for trustworthiness ratings, and only then  
33 measuring similarity in values.

### 34 2.3. EXPERIMENT 3

#### 35 2.3.1. METHOD

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37 A total of 115 participants (36 women and 79 men, mean age = 30, SD  
38 = 10) were recruited through the Amazon Mechanical Turk crowdsourcing  
39 marketplace. Participants received 10 for each completed questionnaire.

40 In the first phase of the experiment, participants rated the  
41 trustworthiness of various funds, which were described so as to manipulate their  
42 past financial performance, as well as their moral values. In the Phase 2 of the  
43 experiment, the similarity in values between funds and participants was

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46 <sup>[1]</sup>We also conducted an analysis of variance that included the gender of the fund manager as an additional  
47 predictor, coded as being either the same gender as that of the participant, or the opposite gender. This analysis  
48 detected a main effect of similarity in values, but also an interaction between the similarity in values and whether  
49 the fund manager was the same or opposite gender as the participant,  $F(2,50) = 4.1$ ,  $p < .02$ ,  
50  $\eta^2 = .08$ . This interaction appeared to reflect a rather specific effect: When values were moderately similar  
51 (and only in that case), participants appeared to trust the opposite gender more. Because this effect is weak and not  
52 predicted, we will not speculate further about its interpretation.

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3 measured by means of a standardized scale.

4 The fund descriptions used in the first phase were constructed according  
5 to a  $2 \times 3$  within-participant design, manipulating the past financial  
6 performance of the fund (profitable for 6 of the last 10 years, or profitable for 9  
7 of the past ten years), and the expected value similarity (low, moderate, high).  
8 The values of the funds in the low (resp., moderate, high) similarity condition  
9 were that which most commonly belonged to Tier 3 (resp., Tier 2, Tier 1) in  
10 Experiment 2. For example, the fund with poor past financial performance and  
11 low expected similarity in values was described in this way:  
12

13  
14 *According to EcoReport, the fund only selects companies that act in a competitive*  
15 *manner and have responsible supply chain politics. The fund was profitable for 6 out of the last the*  
16 *ten years.*

17 Following each fund description participants answered the question "To  
18 what degree do you trust this fund?" on a 10-point scale anchored at *Not at all*  
19 and *Completely*.

20 In the second phase of the experiment, participants reviewed again each  
21 of the funds presented in the first phase, and completed for each of them a 6-item  
22 scale measuring similarity in values (Twyman et al. 2008; Heimann et al. 2011;  
23 Earle & Cvetkovich 1999). This scale involved a series of judgments on 7-point  
24 scales about the fund, respectively anchored at *shares my values* and *has*  
25 *different values; in line with me* and *in the wrong direction; same goals as me*  
26 and *different goals; supports my views* and *opposes my views; acts as I would*  
27 and *acts against me; thinks like me* and *thinks unlike me*. A composite score of  
28 similarity in values could then be computed for each fund, for each participant.  
29 This composite score was the average of the reverse-coded responses to the 6  
30 items (so that a high score would correspond to a high similarity in value).  
31

### 32 2.3.2. RESULTS

33 Our manipulation of the similarity in values was a success, as shown by  
34 the ratings provided in the second phase of the experiment. Funds in the low  
35 similarity conditions scored an average of 4.4 (SD = 1.4), funds in the moderate  
36 similarity condition scored an average of 4.7 (SD = 1.4), and funds in the high  
37 similarity condition scored an average of 4.9 (SD = 1.5). Paired sample t-tests  
38 revealed that the difference between the low and moderate conditions was  
39 significant ( $t(114) = 2.6, p = .01$ ), as well as the difference between the  
40 moderate and high condition ( $t(114) = 2.1, p < .05$ ). As shown in Figure 3,  
41 trust increased with value similarity for all three sets of values.  
42

#### 43 2.3.2.1. MEDIATION ANALYSIS

44 To test whether the effect of the experimental manipulation was  
45 indirect, i.e. mediated through value similarity, we tested the mediation model.  
46 We followed the procedure described by Preacher & Hayes (2004) which was  
47 implemented using their SPSS macro. This macro estimates the path coefficients  
48 in a mediation model and generates bootstrap confidence intervals for total and  
49 specific indirect effects of X on Y through the mediator. This analysis is  
50 appropriate for use with a multicategorical independent variable (experimental  
51 manipulation) and a mediator variable (value similarity ratings). We created a  
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sequential code variables to reflect the levels of the categorical independent variable which were rank-ordered (1 = low similarity and poor performance, 2 = low similarity and good performance; 3 = moderate similarity and poor performance, 4 = moderate similarity and good performance, 5 = high similarity and poor performance, 6 = high similarity and good performance).

We hypothesized that perceived value similarity is the mediator of the experimental manipulation - trustworthiness relation. Therefore, we used a nonparametric resampling method (bootstrap) with 5,000 resamples to derive the 95% confidence interval for the indirect effect of the manipulation via the hypothesized mediator (perceived value similarity) to trust.

The relationship between our manipulation and trust in the funds was fully mediated by values similarity scores. First, the standardized regression coefficient between experimental manipulation and trust decreased substantially when controlling for value similarity. Second, the other conditions of mediation were also met: Experimental manipulation was a significant predictor of trust and of value similarity, and value similarity was a significant predictor of trust while controlling for experimental manipulation. The true indirect effect was estimated to lie between 0.01 and 0.036. Because zero is not in the 95% confidence interval, we can conclude that the indirect effect is significantly different from zero at  $p < 0.05$ , and thus perceived value similarity mediates the relation between our manipulation and trust.

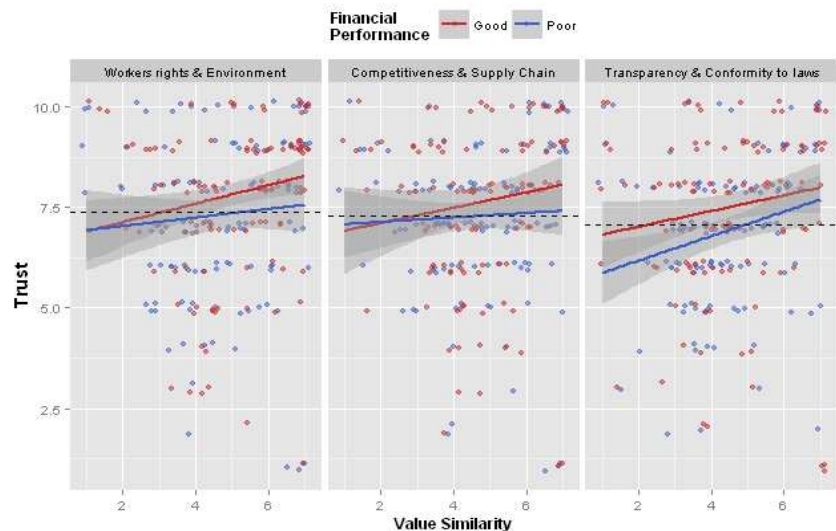


Figure 3: Experiment 3. Trust in a fund increases as a function of similarity in values, for all three sets of values used in the experiment.

### 3. DISCUSSION

In this paper we wanted to test for the effect of socially responsible investments practices on young adults' trust in mutual funds. We made the prediction that participants' perception of the similarity between their own values and that of a fund would be key to increased trustworthiness. We experimentally manipulated similarity in values in three experiments, using three different protocols. In these experiments, we also compared the effect of value similarity to the effect of social labeling and past performance. In the three experiments, funds whose values were similar to that of the participants were trusted more.

Funds with a better performance record were sometimes judged more trustworthy. In Experiment 1, financial performance interacted with value similarity in a way that funds with poor performance were trusted significantly less when no moral information was available but reached the same trust levels when they promoted values similar to that of participants. The good performers lost even more trust when they had dissimilar values. Experiment 3, however, did not confirm this interaction but revealed an overall effect of performance on trust ratings. Nevertheless, funds with large value similarity and poor performance reached the same trust levels as funds with low similarity and good performance.

#### 3.1. VALUES AND INVESTORS

Our results suggest that future generations of investors prefer to trust mutual funds with moral values similar to their own and confirm the findings that value similarity is linked to SRI customer loyalty (Durif et al. 2013). Funds rated by a social responsibility rating agency were trusted significantly more when the ratings directly reflected a participants' business ethics values, compared to funds that were not rated. However if the social responsibility ratings were dissimilar to a participants values, funds were perceived to be even less trustworthy than those who had not received any ratings.

Our results show that overall performance can help foster trust in investments. We show that the underlying factor of the effect of overall performance on trust is the similarity in values between investors and funds. The investor demand for overall performance, however, does not seem to be reflected in the missions and tools of management control (Naro & Travaillé 2016). More research on the communication between investors, financial intermediaries and management controllers could shed light on potential barriers.

Garling et al. (2009) asked how change towards a more responsible investment fund landscape can be promoted, and suggested strategic organizational interventions. Our experiments show that overall performance should play a central role if the goal of such interventions is to reach out to individual investors. Environmental, Social and Governance (ESG) criteria are consensual values for professionals, but often ambiguous and difficult for individual investors to grasp. As Pesqueux (2009) notes, notions like sustainable development and CSR are ambiguous because the supposed underlying values are not consensual and often heterogeneous. Governance, for example, is a concept that most economists would relate to processes that support consistent management and cohesive policies for the financial well-being of a company,



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3 rather than with moral values. Our finding that value similarity drives the effect  
4 of overall performance on trust suggests that the moral values underlying overall  
5 performance should be shared by investors. Therefore, we suggest those values  
6 to be clearly defined, implemented and communicated.

7 Our results suggest practical implications for fund promoters. First,  
8 trusting individuals are significantly more likely to invest, and if they do so, they  
9 invest a larger share of their wealth; conversely, less trusting individuals are less  
10 likely to invest, and if they do so, they invest a smaller share of their wealth Guiso  
11 et al. (2008). Our studies identified similarity of values to be the key contributor  
12 to the formation of trust in socially responsible funds. Consequently, investment  
13 funds can acquire an edge by communicating on overall performance and the  
14 specific values of their target investors. Building on value similarity would  
15 require first, the identification of potential target investors and measurement of  
16 their values, second the conception of a mutual fund that integrates those values  
17 and third communicating the funds values with target investors.

18 Lastly, our results suggest that merely labelling a fund as ethical does  
19 not make a significant difference to its trustworthiness. This suggests that  
20 communicating on value similarity is a far better choice. A promising venue  
21 could be a label guaranteeing values that are shared by investors. Building on the  
22 field work of Bonnet et al. (2016) socio-economic management could provide a  
23 overall performance certification or ranking that is understood and shared by  
24 investors and thus help restore trust in investment funds. A overall performance  
25 label should guarantee the reliability of extra financial information, and most  
26 importantly the integrated approach to social responsibility.

### 27 28 3.2. THE ISSUE OF FINANCIAL PERFORMANCE

29 We should be cautious to neglect the role of financial performance for  
30 trust. Our findings oppose the vision of an underperforming investment fund that  
31 is highly trusted merely because it adopts values similar to a persons' values.  
32 Good financial performance is essential for understanding overall performance  
33 and its effect on trust. Having similar values to the investor does not dispense  
34 funds from being profitable. Otherwise giving his money to charity would be the  
35 better option.

36 In no case did the poorly performing funds of Experiment 3 do better  
37 than the good performers, and the effect of performance was far stronger than the  
38 effect of value similarity. Both of these findings are in line with the fact that it is  
39 not unusual for socially responsible investors to hold also conventional  
40 investments and that there is no difference between social and conventional  
41 investors about the importance they give to financial return (Webley et al. 2001).  
42 If McLachlan & Gardner (2004) are right and only a small group of hardcore SRI  
43 investors are willing to make financial sacrifices, large public funds are advised  
44 not to look for that niche.

45 The general effect of financial performance on trust in the context of  
46 investment funds is presumably linked to the role of ability or similar concepts  
47 (Mayer et al. 1995; Mishra 1996). It is best described as a group of skills and  
48 competencies, and characteristics that enable a party to have influence within  
49 some specific domain. Most investors believe that financial past performance  
50 provides information on the ability to generate future returns (Diacon &  
51 Hasseldine 2007). However the predictability of future returns by past  
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3 performance is highly contested (Brown & Goetzmann 2012; Carhart 2012;  
4 Grinblatt & Titman 1992). This probably false belief in information about ability  
5 could explain the influence on the perceived trustworthiness of the funds

6 An important task for overall performance professionals is to provide  
7 investors with solid evidence on the financial materiality of socio-economic  
8 management. Research by Bonnet et al. (2016) provides an encouraging example  
9 in this direction.

10 It was not within the scope of this paper to provide higher granularity  
11 for the effects of financial performance on trust. Having chosen to compare two  
12 profitable funds is ecologically sound since funds who consistently underperform  
13 are unlikely to survive in the long run. Further, the effects of ability on perceived  
14 trustworthiness, will be even more present in the pursuit of the relationship once  
15 the fund has been bought (Mayer et al. 1995), and thus should be investigated in  
16 a separate study on investment holdings.  
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#### Notes:

40 <sup>[1]</sup>We also conducted an analysis of variance that included the gender of the fund manager as an additional  
41 predictor, coded as being either the same gender as that of the participant, or the opposite gender. This analysis  
42 detected a main effect of similarity in values, but also an interaction between the similarity in values and whether  
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