

INVESTORS' EXPECTATION ON RATE OF RETURN AND MORAL IMAGE OF COMPANIES

Ho-Yin Yue^{*}, Shirley Mo Ching Yeung^{**}, Kenneth Hoi Ki Chung^{*},
Choi-Ling Tong^{***}

^{*} Hang Seng Management College, Hong Kong

^{**} Corresponding author Department of Business, Gratia Christian College, Hong Kong; UNESCO, Hong Kong Association, Hong Kong; Contact details: Department of Business, Gratia Christian College, 5 Wai Chi Street, Shek Kip Mei, Kowloon, Hong Kong; UNESCO, Hong Kong Association, Room 7, 24/F, Tung Che Commercial Centre, 246 Des Voeux Road West, Sai Ying Pun, Hong Kong

^{***} Faculty of Social Sciences, Hong Kong Baptist University, Hong Kong



Abstract

How to cite this paper: Yue, H.-Y., Yeung, S. M. C., Chung, K. H. K., & Tong, C.-L. (2018). Investors' expectation on rate of return and moral image of companies. *Corporate Ownership & Control*, 15(2), 99-115. <http://doi.org/10.22495/cocv15i2art9>

Copyright © 2018 The Authors

This work is licensed under the Creative Commons Attribution-NonCommercial 4.0 International License (CC BY-NC 4.0). <http://creativecommons.org/licenses/by-nc/4.0/>

ISSN Online: 1810-3057

ISSN Print: 1727-9232

Received: 06.07.2017

Accepted: 01.11.2017

JEL Classification: G02, G32

DOI: 10.22495/cocv15i2art9

Corporate Social Responsibility (CSR) has become a fad in different industries, especially the finance industry. It is time to explore the relationship between images of companies and investors' attitude. The purpose of this paper is to reflect the relationship between moral and immoral images of companies in relation to investors' expectations on the rate of return of companies. Newspaper cuttings and fact sheets of selected companies were provided to participants to study their perception on the moral/immoral images of companies and investment attitude with questionnaires verified participants' involvement in reading materials provided. Quantitative analysis of the questionnaires showed that an immoral premium was found in the expected returns of the participants. After the investment attitudes were induced on the participants, the participants gave a higher expected return on the company with a poor moral image (M=0.91, SD=1.05) than a company with a good moral image (M=0.46, SD=0.44). Immoral premium found in the expected returns for both before and after the time that the investment attitudes were induced to the participants. This research is managerially and strategically relevant and topical about the suggestion of immoral premium. However, longitudinal and qualitative analysis from the finance and social perspectives are required to support findings of this study.

Keywords: Corporate Social Responsibility (CSR), Moral Image, Immoral Premium

1. INTRODUCTION

Even though economics textbooks usually state that investors' behaviour is selfish and rational, driven by maximizing their investment return, more and more evidence suggest the existence of a moral dimension in investors' behaviour (Etzioni, 1988; Fehr & Gächter, 1998, 2002). For example, Harvard University announced the destitute of \$58 million in tobacco stocks from the university's portfolio in 1990. The Harvard's president, Derek Bok, said, "the university's decision was motivated by a desire not to be associated with as a shareholder with companies engaged in sales of products that create a substantial and unjustified risk of harm to other human beings." Over the past decades, moral mutual funds often called the socially responsible investment (SRI) funds, grow dramatically. In the

U.S., SRI funds held \$3.74 trillion in 2012; it rose to \$6.57 trillion among more than 400 SRI funds in 2014. The significances of moral investment arouse the interest of academia. The performance of moral investment (Goldreyer & Diltz, 1999; Statman, 2000; Schroder, 2004; Bello, 2005) and the behavioural differences between moral investor and conventional investors (Domini & Kider, 1984; Lewis, 2001; Bauer et al., 2005; Renneboog et al., 2008) are areas that focused by academics.

Although there is an enormous number of studies on moral investment, there are inconsistencies in the results and puzzles on the observations. Some studies found a significant relationship between moral factors and performance of investment (Brammer et al., 2006), while some other studies found opposite results (Blajer-Golebiewska, 2014).

Impacts of moral dimension on the value of firms (Auer, 2016; Chen & Lee, 2017) and investors' behaviour were also widely studied. For examples, some studies found that moral investors are prepared to incur costs on investment in order to invest morally (Anand & Cownton, 1993; Lewis et al., 1998), some other studies found a high price elasticity in moral commitment among investors (Cullis, 1992; Lewis & Webley, 1994). However, the relation between moral dimension and the behaviour of investors is still unclear.

There are two objectives in this study. First, the authors intend to identify the differences between the expected returns of participants (investors) who invested in companies with good and poor moral images under the same financial background. Second, the authors intend to find out how moral dimension of participants (investors) affect their decision making in relation to expectation on the rate of return from the investment. According to the knowledge of the authors, this study is the first study on the relationship between investors' expected returns and the moral images of the companies that the investors invested in.

2. TREND OF CSR INTO QUALITY MANAGEMENT AND FINANCIAL MANAGEMENT

Harrison brought up the point that the powerful thing that drives people behaviour is self-image. In fact, ISO 9001: 2008 can act as a catalyst to strengthen the image of "involvement of staff" and "transparent". Besides, concepts like "corporate social responsibility" (CSR) and "ethics" have also become a fundamental part of ISO 9001: 2008. ISO 9001: 2000 has been recently upgraded to ISO 9001:2008 at the end of November 2008 to clarify existing requirements of ISO 9001:2000. Recently, ISO 9001: 2008 has revised to 2015 version. The key elements of a quality management system (QMS) within an organization are work environment, customer property and internal audit, monitoring and measuring process.

From the above key elements, a trend of QMS can be demonstrated - striving a balance on hard and soft resources with consideration of stakeholders for maintaining not only the product but also system performance. "Risk and Impact" are also part of the QMS.

Apart from the new version of ISO 9001: 2008, the ISO 26000 standard emerges and focuses on social responsibility (SR). According to Cajazeira (2008), the major principles for ISO 26000 are accountability, transparency, ethical behaviour, consideration for the stakeholders, legality, international standards, and human rights. It is the responsibility of organizations to consider the needs of the stakeholders in these seven aspects when designing work processes or executing business-related activities. In fact, the new version ISO 9001:2008 and coming ISO standard 26000 convey a message that non-economic inputs and soft side of outcomes are the trends of the quality management system.

From ISO 9000 to CSR, the following characteristics of quality management have been observed in a variety of industries across the West and the East:

- Consideration of all stakeholders, especially employees, consumers and community in business

practices;

- Recognition of organizations' visions and practices;
- Establishment of quality culture and transparency; and
- Acceptance of benchmarking for continual improvement.

Though quality management standards are commonly used in manufacturing and servicing industries, they are not being practiced strongly in banking and finance industries. How can banking organizations remain competitive with non-financial results, like a demonstration of care when designing and promoting financial products to investors? People criticize that banking industry has its own unique standard operational procedures, and obtaining ISO-related certificates are time-consuming. This paper is not going to argue the adoption of ISO or CSR into the banking and finance industries. Instead, it focuses mainly on exploring the perception of people on moral and immoral images of companies when making financial decision on rates of returns. This study reports on the experimental results with quantitative analysis of participants studying in higher education institutions with a target to answer the following questions:

1) What are the key differences between the expected returns of participants (investors) who invested in companies with good and poor moral images under the same financial background?

2) How does the moral dimension of participants (investors) affect their decision making in relation to expectation on the rate of return from the investment?

2.1. Empirical studies on the performance of moral investment

Economic theories of social norms (Akerlof, 1980; Romer, 1984) suggest that it is costly to disobey the social norms as the individual may be suffered by loss of reputation. Following this idea, moral investments might be expected to underperform conventional investments as opportunity set of investment is constrained by the non-financial criteria if investors want to obey the social norm (invest in a moral way) and the optimal portfolio may not be achievable.

Empirical results are mixed when answering the question whether the returns from moral investment differs from conventional investment (Otten et al., 2005; Benson et al., 2006; Bollen, 2007). On a risk-adjusted basis, most of the studies showed no significant difference between the returns of moral investment and conventional investment (Golfreyer & Diltz, 1999; Statman, 2000). However, Geczy et al. (2003) found that the financial costs of moral investment cannot be ignored and may affect the returns. Evidences showed the difference in returns between moral investment and conventional investment in UK (Luther et al., 1992; Mallin et al., 1995), in Canadian (Bauer et al., 2007), in Australian (Bauer et al., 2006) and in multi-national cases (Schroder, 2004; Kreander et al., 2005). Although the conflicts among evidence may be explained by the different methodologies used in studies (Renneboog et al., 2008), it is still hard to draw the conclusion whether the returns of moral investment are different from the returns of conventional investment.

2.2. Behaviour of moral investors

Apart from the performance of the moral investments, the behaviour of the moral investors is another hot topic in moral investment. Whether moral investors willing to sacrifice part of the return in exchange for some other non-financial dimensions? Mackenzie & Lewis (1999) found that moral investors required a minimum amount of financial return before considerations of coming into play. In other words, moral investors have moral concerns, but a sacrifice of financial return happens only when the essential return is ensured.

Lewis & Mackenzie (2000) reported that moral investors are more sensitive to positive returns than a shortfall. Moral investors do not respond to a small shortfall in the financial performance of moral investments. However, moral investors tend to increase investment if the financial performance of a moral investment is slightly superior to that given by a conventional investment. Bollen (2005) found in his study of SRI funds that moral investors increase investment rapidly but reduce investment slowly in moral investment. Similar evidence were provided by Webley et al. (2001). Their study showed that a slightly underperformance of moral funds do not lead to a reduction of investment by a moral investor. These findings suggest that a trade-off between financial and moral performance may be possible.

2.3. Growing trend in social reporting for investors and regulators

In the past 10 years, different kinds of social reporting, financial reporting and integrating reporting standards and requirements have emerged for transparency and governance. Humanity in operations system for a balance between financial and non-financial results is a growing trend. A holistic picture with accurate and verifiable information is needed for stakeholders and shareholders to make a right decision, including financial investment decision.

In 2014, Weber conducted a study on environmental, social and governance (ESG) reporting in China between 2005 to 2012 with institutional theory, accountability and stakeholder theory in relation to environmental and financial performance. His findings suggested that ownership status and membership of certain stock exchanges influenced the frequency of ESG disclosure. Weber (2014) mentioned that ESG reporting influenced both environmental and financial performance. And, he further pointed out that the main drivers for ESG disclosure were accountability and quality of management (p. 303).

"It is often argued that CSR performance cannot be easily compared between firms from different countries because firms react to different institutional pressures. Cultural, development, market and political influences play an important role in firms' activities and this is valid for environmental reporting as well...But there is evidence that CSR in line with ESG reporting is a growing management issue in China though environmental reporting has a

much longer history in other regions because of stakeholder pressure or regulations" (Weber, p. 305).

Besides, Tinjala et al. (2015) mentioned that the concept of sustainability had evolved to encompass environment, social and governance issues regarding corporate behaviour. They highlighted that stakeholders had begun putting pressure on companies to report on sustainability issues in recent years. Several national and international regulations and standards have been adopted to guide companies in their reporting (Tinjala, p. 48). Their ideas have been echoed by Burke and Clark (2016) and they also pointed out a recent trend of integrated reporting. They mentioned that reporting was not only for transparency but also for demonstrating values created for stakeholders with integrated financial and non-financial information. Based on the research interview of Burke and Clark (2016) on the need for integrated thinking, they found out that the best way to obtain high-quality data, the ideal audience of such reports, and the options for report assurance was the effective use of the International Integrated Reporting Council framework (p. 273).

"The International Integrated Reporting Council (IIRC), chaired by Professor Mervyn King, is an international coalition of regulators, investors, companies, standard setters, accounting professionals, and NGOs who share 'the view that communication about value creation should be the next step in the evolution of corporate reporting' (p. 273).

Based on the above study in the past few years, integrated reporting with social and financial information is crucial. And, the reported contents form the basis of values creation and image building indirectly projected to the investors and the community which affect decision making process and actions to be taken, for example, investment decision.

3. RESEARCH METHODOLOGY

3.1. Experiment one – effectiveness verification of materials

3.1.1. Participants

238 participants were invited to the study. All participants are recruited from Hong Kong Baptist University and Hang Seng Management College in Hong Kong. Our study consists of an experiment with two parts. The first part is aimed to verify the effectiveness of the materials in the experiment. The second part is the main experiment. Participants involved in either the first or second part of the study only. In the verification of the effectiveness of materials, 80 participants, including 39 males and 41 females, were included. Their ages range from 18 to 27 years, with an average of 23 years. Participants took part in the study voluntarily without pay.

3.1.2. Materials

There were 12 newspaper cuttings which relate to the companies, two articles which discuss on the 'correct' attitude for investment and a fact sheet on

the return of Hang Seng Index was distributed to the participants for providing the information required in the study. The materials also consisted of six sets of true or false questions and two questionnaires. All the news-cuts used in the current study are translated into English and shown in the Appendix.

The news-cuts were used to manipulate the participants' perception on the moral images of companies, while the articles on investment attitude were used to manipulate the participants' investment attitude and to modulate the effect of moral images of companies on participants' decision. Those true or false question sets in our study were used to check whether the participants had read the news-cuts and the articles thoroughly. The effectiveness of the news-cuts and the articles were verified by the questionnaires.

The following subsection describes the selection process of the news-cuts and the articles on investment attitude. The design of the true or false questions and the questionnaires are followed immediately afterwards.

A total of 12 news-cuts were used to manipulate the perception of participants on moral images of companies. The 12 news-cuts were divided evenly into two groups with six news-cuts in a group. All newspaper cuttings are related to either Cheung Kong (Holdings) Limited or The Link Real Estate Investment Trust. Both the companies are constituents of Hang Seng Index and listed on the Hong Kong Stock Exchange. We selected the two companies because they are famous and having a neutral moral image among participants.

All the news-cuts were sourced from newspapers. The newspapers are published in Hong Kong and written in Chinese, the mother language of the participants, and the length is less than 1,000 words. The newspaper cuts do not disclose any financial information of the companies. In other words, annual revenue, potential loss or any other information which relates to profit/loss of the companies had not been selected in this study. We avoid using the news-cuts which may disclose the financial situation of the companies, in such way we can ensure the investment behaviour of participants were not affected by financial dimensions.

In each group of news cuts, three of them are aimed to build a moral image for the company. The contents of the newspaper cuts may be related to the company taking part in activities on community services, environmental saving, and so on. The remaining three newspaper cuts are aimed to damage the moral image of the company. Topics of this type may include criticism on companies for having a monopoly power in markets and unfair practices between the company and other small companies.

Two articles on the investment attitude were distributed to the participants. Both articles were extracted from magazines and newspapers. They are published in Hong Kong and written in Chinese. The number of words contains in the articles length from 1,380 to 1,844. Although both articles are concerned with investment attitude, they define the 'correct' attitude differently. The first article tries to teach the participants that investment is a long-term action. When investors invest in a company, they

become one of the owners of the company. They have the responsibility to monitor, to direct and to suggest the way of development of the company. The second article describes the 'correct' investment attitude in another direction. In the second article, it teaches investors to earn profit from arbitrages in markets and short-term fluctuations of prices. The article also emphasizes that investment is nothing about business nature and fundamental factors, investors have no obligation to monitor and guide the development direction of companies. A casual conclusion that investors have no moral responsibilities on any acts of the company was drawn from the second article.

To check whether the participants had read the news-cuts and articles thoroughly, two true or false question sets were distributed to the participants. The first question set consisted of ten true or false questions. All the questions were based on the companies that were mentioned in the news-cuts. The questions were simple and factual. Participants do not need to analyse or calculate from the content of the news-cuts in obtaining the answers. In other words, if participants have read the newspaper cuts thoroughly, they are able to complete at least eight out of the ten questions correctly. In our study, any response with the number of correct answer less than eight was counted as an invalid response. All invalid responses were not used for the analysis in the study.

The second question set was similar to the first question set. Six true or false questions which related to the articles were designed. All the questions in the question set were simple and factual. Participants could be able to find the answer directly in the articles if they had read the article thoroughly. Ordinary participants are expected to get five correct answers out of six questions. Similarly, the question set used for the newspaper cuts, responses with less than five correct answers were counted as invalid response and would not be used for analysis.

Apart from the true or false questions, two questionnaires were distributed to the participants. One questionnaire was used to verify the effectiveness of the newspaper cuttings on building the moral images. The other questionnaire was to verify the effectiveness of the articles on manipulating the investment attitude of participants. The first questionnaire, hereafter called questionnaire of the moral image, is designed in five items Likert scale. Each item in the first questionnaire has five levels from strongly disagree to strongly agree. Because we want to avoid the participants to know the objective of the questionnaire, the fourth item in the questionnaire is a dummy item for distracting the participants. The five items appeared in the first questionnaire are: (1) The company's business practices are moral. (2) The company has a good conscience. (3) The impression of the company's moral image on me was improved after I had read the news-cuts. (4) Investment is closely related to me. (5) The impression of the company's moral image on me declined after I have read the newspaper cuts. Among all the questions, the fifth question is the only question in reverse order. The average rating of

question one, two, three and five (in reverse order) were used to evaluate the participants' impression on the moral image of the company.

The second questionnaire, hereafter questionnaire of investment attitude, is designed in three items Likert scale. Each item in the second questionnaire has five levels from strongly disagree to strongly agree. The objective of the second questionnaire is to evaluate how close the participants feel for their relationship with investment. The first and the third item in the second questionnaire act as dummy items to distract the participants. These dummy items were used to avoid the participants from knowing the objective of the second questionnaire. The three items appeared in the second questionnaire are: (1) Investment is directly related to richness. (2) Investment is closely related to me. (3) The attitude of investment is associated with the moral responsibility of investors. The rating of item two was used to evaluate the feeling of participants on their relationship with investment.

3.1.3. Procedure

To verify the effectiveness of the materials that were used in the main experiment, 80 participants were involved in an experiment which consisted of two sections. The experiment was conducted in an experiment room which had only the participant and the experimenter inside. Experimenter started the experiment by presenting the informed consent form to the participant. The informed consent briefly explained the aim, the flow and the content of the experiment. The informed consent also reminded the participants that they had the rights to withdraw from the experiment any time they like, without adverse consequence. And the experiment is totally voluntary based without any payment or compensation made to the participants after the completion of the experiment.

Every participant was assigned into one of the four groups (group A, group B, group C and group D) randomly. The numbers of male and female in each group were similar. In section one, the newspaper cuts which describe a moral image of Cheung Kong (Holdings) Limited and The Link Real Estate Investment Trust were distributed to the participants in group A and group C respectively. On the contrary, the participants in group B were given the news cuts which describe an immoral image of Cheung Kong (Holdings) Limited and the participants in group D were given The Link Real Estate Investment Trust respectively.

Five minutes were provided to the participants for reading the newspaper cuts thoroughly. After five minutes, the participants were asked to complete a set of true or false question which corresponds to the newspaper cuts and the companies of their groups. When the participants completed the true or false question set, a questionnaire of the moral image was given to the participants. The answers of the true or false question set were checked and responses in the questionnaire of newspaper cuts would be counted. Only when the number of the correct answers made is eight or above will those corresponding participants' data be considered.

Section two starts immediately after the end of section one. In section two, an article on the investment attitude was provided to the participants according to the group they belonged to. The article which emphasized the ideas of long-term investment and the close relation between investors' and the companies was given to the participants in group A and group B. Another article which emphasized the ideas of short-term investment and the loose relation between investors' and the companies were given to participants in group C and group D. In section one, five minutes were given to the participants to read the article.

After the five minutes, a true or false question set was given to the participants to check if they had read the article thoroughly. The questionnaire of investment attitude was distributed to the participants once the true or false question set was completed, to assess the investment attitude of the participants. Similar to section one, participants' answers on the true or false question set were checked. The responses of the questionnaire of investment attitude are discarded if the number of the correct answers made in the true or false question set is less than five for any participants.

After all the question sets and questionnaires were collected, participants were informed that the experiment (part one) was ended. Experimenters expressed their thankfulness to the participants before the participant left the experiment room.

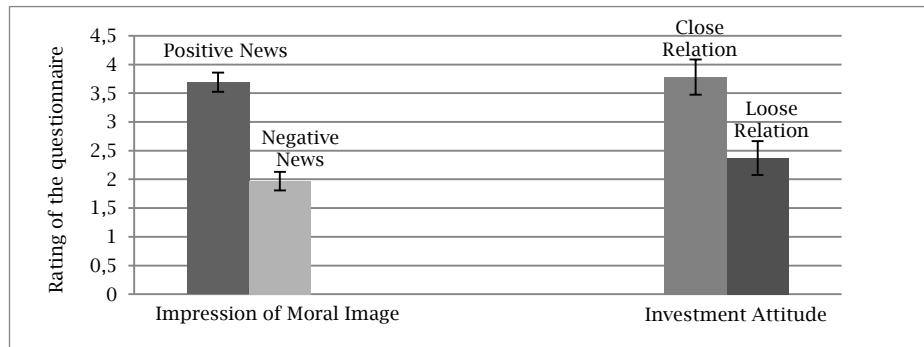
3.1.4. Results

Table 1 presented the descriptive statistics of the experimental data with invalid data removed. The results from independent samples t-test showed a significant difference between the ratings on the moral images after the news cuts on the good moral image ($M=3.69$, $SD=.54$) and bad moral image ($M=1.97$, $SD=.48$); [$t(78)=14.96$, $p=.000$]. The ratings on investment attitudes gave a similar result from independent samples t-test. The ratings on the investment attitudes that, after reading the article emphasizing a loose relation between investors and companies ($M=2.37$, $SD=.93$), were significantly different from the ratings after reading the article emphasizing a close relation between investors and companies ($M=3.78$, $SD=.92$); [$t(78)=6.82$, $p=.000$]. A summary of the comparisons is shown in Figure 1.

In conclusion, the participants' impression on the moral image of a company can be manipulated by the news (newspaper cuttings in our study). The impression rose significantly when participants read a newspaper cut reported a good moral image of the company. On the other hand, the impression dropped when participants had read a news-cut reporting a poor moral image of the company. According to our experimental results, the investment attitude of participants can be affected by the articles that they have read. The participants feel more involved in the investment after reading the article which suggests short-term investment and a loose involvement of investors in investment. On the other hand, the participants feel less involved in the investment after reading the article which suggests long-term investment and a high involvement in the investment.

Table 1. Descriptive statistics for effectiveness of the verification of materials

| <i>Effect of news on the impression of moral image</i> | | | | <i>Effect of article on investment attitude</i> | | | |
|--|-------------------------------|----------------------------------|----------------------------|---|-------------------------------|--------------------------------|----------------------------|
| <i>News type</i> | <i>Number of participants</i> | <i>Mean rating of impression</i> | <i>Standard Derivation</i> | <i>Investment attitude</i> | <i>Number of participants</i> | <i>Mean rating of attitude</i> | <i>Standard Derivation</i> |
| Positive image | 43 | 3.69 | 0.54 | Close relation | 38 | 3.78 | 0.92 |
| Negative image | 37 | 1.97 | 0.48 | Loose relation | 42 | 2.37 | 0.93 |

Figure 1. Effect of news-cuts and articles on the participants

3.2. Experiment two – test on immoral premium

The newspaper cuts and the articles on investment attitude showed their effectiveness in manipulating the companies' moral image and investment attitude of investors. In this section, we test the effect of companies' moral image on investors' expected return on investment. We also test whether investment attitude can be a moderator to manipulate the effect size of the moral image on expected return on investment.

3.2.1. Participants

158 participants were invited to the main experiment of our study. There were 79 male and 79 females. Ages of participants range from 18 to 32, with an average of 21.4 years. Participants took part in the main experiment voluntarily without pay.

3.2.2. Materials

There were 12 newspaper cuttings which relate to the moral images of the companies and two articles which discuss on the investment attitudes in the main experiment to provide the information required by the participants. The effectiveness of the news cuts and articles were verified in the first experiment in our study. The questionnaire of the moral image and the questionnaire of investment attitude were given to the participants. Each news cut and article comes along with a set of true or false questions to check whether the participants had read the materials thoroughly.

A questionnaire consists of two open-ended questions was used to assess the expected return on investment of the participants. The open-ended questions are: (1) Suppose you are forced to spend your money to invest in the stock of Cheung Kong (Holdings) Limited, what is your expected return on this investment? (2) Suppose you are forced to spend your money to invest in the stock of The Link Real Estate Investment Trust, what is your expected return on this investment?

A fact sheet on the return of Hang Seng Index in the past year was distributed to the participants. The fact sheet presented a general overview of the market performance to the participants. The participants can use the returns of Hang Seng Index in the past year as a reference point for the expected returns which mentioned in the questionnaires. The reference point can serve two purposes. First, it avoids the participant to seek unrealistic returns. Second, it lets the participants have a better discrimination between a high expected return and a low expected return.

3.2.3. Procedure

158 participants were invited to the main experiment which consists of two sections. The main experiment was conducted in an experiment room. During the main experiment, only the participant and the experimenter were inside the experiment room to avoid distraction to the participant. The experiment starts with a brief description of the study. However, in order to avoid the cuing effect, the participants were informed that the aim of our study is about investors' behaviour, without further details. Then, the informed consent form was presented to the participants. The informed consent briefly explained the flow and the content of the experiment. The informed consent also informed the participant that they had the rights to withdraw the experiment at any time without adverse consequence and the experiment is totally voluntary based without any payment or compensation made to the participants after completion of the experiment.

After the participants had agreed to take part in the experiment and signed the informed consent, participants were assigned into one of the four groups (group A, group B, group C and group D). The numbers of male and female in each group were controlled in a similar amount. The participants in group A and group C were given three newspaper cuts which describe a positive moral image of Cheung Kong (Holdings) Limited and three

newspaper cuts which describe a negative moral image of The Link Real Estate Investment Trust. On the other hand, the participants in group B and group D were given three newspaper cuts which describe a negative moral image of Cheung Kong (Holdings) Limited and three newspaper cuts which describe a positive moral image of The Link Real Estate Investment Trust. So, each of the participants was received a total of six newspaper cuts. Three of the news cuts were used to build a positive moral image of the company while the remaining three were used to build a negative moral image of the company.

After five minutes, the participants were asked to complete a set of true or false questions, a questionnaire on the moral image and a questionnaire on the expected returns. The true or false questions and the questionnaire of the moral image were identical with those questions in the effectiveness of verification of the newspaper cuts. The true or false questions were used to check whether the participants had read the newspaper cuts thoroughly. The questionnaire of the moral image was used to check the impression of the participants on the moral image of the companies. The questionnaire of the expected returns was given to the participants together with a fact sheet on the return of Hang Seng Index in the past year. Participants could use the fact sheet as a reference for setting their expected return on investment.

After the participants answered their expected returns, an article on the investment attitude was given to them. The article which emphasized the ideas of long-term investment and the close relation between investors' and the companies was given to the participants in group A and group B. An article which emphasized the ideas of short-term investment and the loose relation between investors' and the companies was given to participants in group C and group D. The effectiveness on participant's investment attitude of the articles was verified in the previous experiment. Five minutes were given to the participants to read the article. After the allowed time passed, the true or false questions, a questionnaire of investment attitude and a questionnaire of the expected returns were given to the participants. The true or false questions were used to check whether the participants had read the article thoroughly. The investment attitudes of the participants were checked by the questionnaire of the investment attitude. The expected returns of the participant were enquired again by the questionnaire.

After all the question sets and questionnaires were collected, participants were informed that the experiment was ended. Experimenters explained the objectives of the study and expressed their

thankfulness to the participants before the latter left the experiment room.

3.2.4. Results

Data cleaning had been conducted before we used the data in the analysis. The responses from eight of the participants were filtered. Because the number of the correct answer in their true or false question sets were less than half, it indicated that the participants had not read the newspaper cuts and articles thoroughly. Data from 150 participants remained in data analysis of the main experiment.

3.3. Induced moral image and investment attitude

The participants' impressions on the moral images of companies after they read the newspaper cuttings and the investment attitudes of the participants after they read the articles were shown in Table 2.

To check whether the news cuts influenced the participants' impressions on moral images, paired t-test was conducted. A significant difference between the participants' impression on moral images was found. Participants gave higher scores on the moral image of the company after they had read the news cuts that described a positive moral image of the company ($M=3.53$, $SD=.64$) than news cuts with a negative moral image ($M=1.96$, $SD=.54$); [$t(149)=20.52$, $p=.000$].

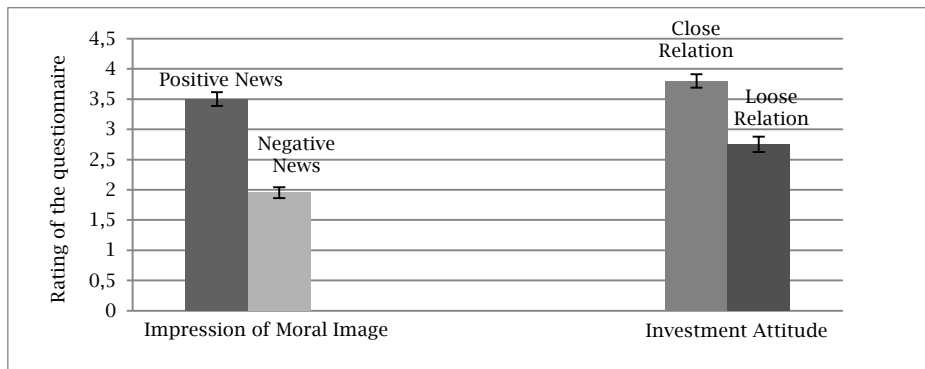
A similar result was found in the investment attitude. According to the result of independent sample t-test, the ratings on the investment attitudes after reading the article emphasizing a loose relation between investors and companies ($M=2.48$, $SD=.84$), were significantly lower than the ratings after reading the article emphasizing a close relation between investors and companies ($M=3.62$, $SD=.97$); [$t(298)=10.94$, $p=.000$]. A summary of the comparisons is shown in Figure 2.

We are safe to conclude that the articles on investment attitude and news cuts can influence the participants' investment attitude and their impression on the moral image of a company. The impression on moral image rose significantly when the participants had read a newspaper cut reported a positive moral image of the company. The impression dropped when the participants had read a newspaper cut reported a negative moral image of the company. Besides, the participants feel more involved in the investment after reading the article that suggests short-term investment and a loose involvement of investors in investment. On the other hand, the participants feel less involved in the investment after reading the article which suggests long-term investment and a high involvement in the investment.

Table 2. Descriptive statistics for the impression of moral image and investment attitudes

| <i>Effect of news on the impression of moral image</i> | | | | <i>Effect of article on investment attitude</i> | | | |
|--|-------------------------------|----------------------------------|----------------------------|---|-------------------------------|--------------------------------|----------------------------|
| <i>News type</i> | <i>Number of participants</i> | <i>Mean rating of impression</i> | <i>Standard Derivation</i> | <i>Investment attitude</i> | <i>Number of participants</i> | <i>Mean rating of attitude</i> | <i>Standard Derivation</i> |
| Positive image | 150 | 3.53 | 0.64 | Close relation | 80 | 3.62 | 0.97 |
| Negative image | 150 | 1.96 | 0.54 | Loose relation | 70 | 2.48 | 0.84 |

Figure 2. Effectiveness of materials used in the main experiment



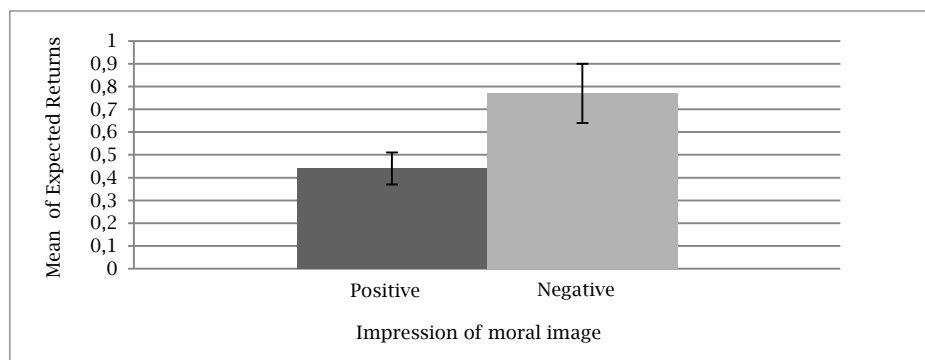
3.4. Evidence of immoral premium on expected returns

A paired t-test was conducted to compare the expected returns of the participants between companies with good and bad moral images. The result of the paired t-test showed a significant difference between the expected returns. Participants asked for a higher expected return when they invested in a company with a bad moral image

($M=0.72$, $SD=.84$) than in a company with a good moral image ($M=0.44$, $SD=.45$); [$t(149) = 7.09$, $p=.000$]. Our experimental results suggest that investors ask for a premium when investing in companies having a bad moral image (Figure 3).

As the participants cannot achieve any financial information of the companies, the premium is likely caused by behavioural dimension rather than a rational decision after considering the profit that can be made from the investment.

Figure 3. Expected returns and 95% CI on assets with different impression of moral image



3.5. Moderator effect of investment attitude on moral image

In this section, we try to test the interaction effect of investment attitude and moral image. In our experiment, two investment attitudes were induced. Half of the total participants were taught that investment was a long-term process and investors related to their investment closely. The remaining half of the participants were taught that investment was a short-term process and investors related to their investment loosely. The expected returns on investment of participants with different investment attitude were tested using within-between subjects ANOVA. Significant effects were found in both the main effect and interaction effect.

An immoral premium was found in the expected returns of the participants. After the investment attitudes were induced on the participants, the participants give a higher expected return on the company with a poor moral image ($M=0.91$, $SD = 1.05$) than company with a good moral image ($M=0.46$, $SD=0.44$) [Wilks' Lambda=.74, $F(1,148) = 50.86$, $p=.000$]. Immoral premium found in the expected returns for both before and after the

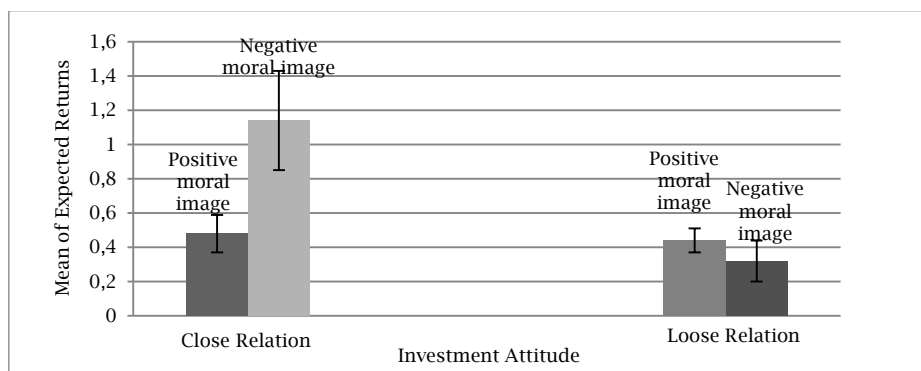
time that the investment attitudes were induced to the participants. Our experimental results further suggest the existence of immoral premium.

The main significant effect was found in investment attitude. The expected returns when the participants believe investment related to them closely (good moral image: $M=.48$, $SD=.52$, poor moral image: $M=1.14$, $SD=1.32$) were significant higher than expected returns when the participants believe investment related to them loosely (good moral image: $M=.44$, $SD=.32$, poor moral image: $M=.65$, $SD=.52$) [$F(1,148) = 5.44$, $p=.021 < .05$]. To analyze the data further, we found an interaction effect between investment attitude of the participants and moral image of the companies [Wilks' Lambda=.92, $F(1,148) = 13.32$, $p=.000$]. For companies with a poor moral image, the expected returns of the participants who believe investment related to them closely ($M=1.14$, $SD=1.32$) were significantly higher than the expected returns of the participants who believe investment related to them loosely ($M=.65$, $SD=.52$) [$t(105.64) = 2.92$, $p=.003$]. However, no significant difference was found for companies with a good moral image. The expected returns from different conditions were presented in Figure 4.

The relationship between moral factors and return on investment are still under debate. Some studies found a significant relationship between moral factors and return on investment (Brammer et al., 2006). On the other hand, some other studies found opposite results (Blajer-Gołębiowska, 2014). Our experimental results suggest a possible explanation for the above difference among studies. According to our results, investment attitude is a moderator which influences the expected return of investors under the effect of the moral image of the investment companies. The difference in expected return between companies with good and poor moral image is low when investors believe that investment is a short-term action which related to them loosely, and investors capture the profit by the

volatility of the stock prices of the companies. On the contrary, the difference in expected return is significant when investors believe that investment is a long-term action which related to them closely, and investors are the owner of the companies. Hence, the differences findings in the relationship between moral factors and return on investment would be accounted by the difference in investment attitude over markets and countries. Indeed, empirical evidence for the variation in investment attitude over cultures and markets can be found in König (2016). Therefore, the likelihood for investment attitude to be one of the factors that cause the mismatch in the amount of immoral premium between markets is high.

Figure 4. Expected returns and 95% CI after the investment attitudes were induced



3.6. Moral transgression causes immoral premium

In this section, we try to explain the possible causes of immoral premium. Between-within subject ANOVA was conducted on the data. The between subjects' independent variable is the investment attitude, which was induced by the article on investment attitude, of the participants. The within-subject independent variable is the expected returns of the participants. There are two levels in the expected returns, the first level is the expected return before the participants read the article, the second level is the expected return after the participants had read the article on the investment attitude. Main significant effect on investment attitude [Wilks' Lambda=.90, $F(1,148) = 16.87$, $p = .000$] and interaction between investment attitude and the expected return of participants [Wilks' Lambda=.83, $F(1,148) = 31.23$, $p = .000$] were found, when the investment was made up from companies with the poor moral image. In contrast, no significant effect on investment attitude [Wilks' Lambda=.99, $F(1,148) = 1.59$, $p = .21 > .05$] and interaction between investment attitude and the expected return of participants, when the investment was made up from companies with good moral image [Wilks' Lambda=.99, $F(1,148) = 2.22$, $p = .14$]. Figure 5 presented the changes in expected returns before and after the investment attitudes were induced to the participants.

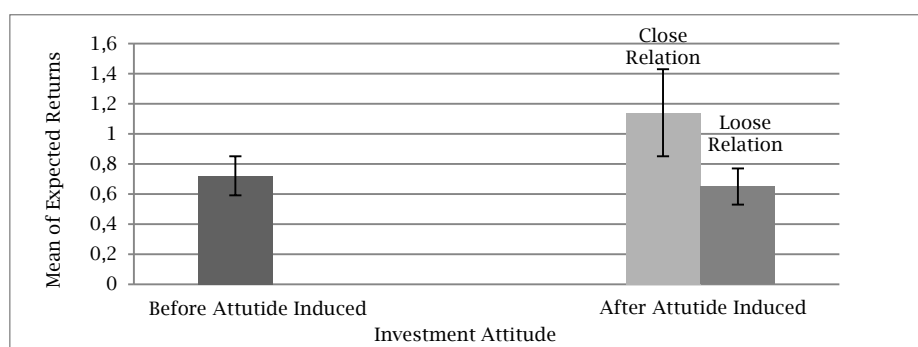
Our experimental results can be explained by the cognitive dissonance theory (Cooper, 2011; Festinger & Carlsmith, 1959) and the moral transgression. In the cognitive dissonance theory, a cognitive dissonance is a mental discomfort experienced by an individual who performs an action that is contradictory to their beliefs or values.

An individual who experiences dissonance is motivated to try to reduce this dissonance.

Lea and Webley (2006) suggested that moral transgression would cause cognition dissonance as a result from an individual performs an action that violates his/her moral value. They further suggested that by providing enough money as compensation, the dissonance can be reduced. Piff et al. (2012) and Xie et al. (2014) examined the relationship money compensation and moral transgression. They drew the similar conclusion that the cognitive dissonance caused by immoral acts could be reduced by given enough money as compensation. They also found that the level of intimacy and guilty feeling of an individual could change the amount of compensation they ask for. People tend to ask for a higher amount of compensation when the act is immoral or the act is closely related to them. In contrast, there is no cognitive dissonance when people perform a moral act. So, people do not ask for compensation when they perform a moral act no matter the level of intimacy is high or low.

Our experimental results showed a picture which agreed with Xie et al. (2014) findings. When participants were forced to invest in a company with a poor moral image, they tend to ask for a higher expected return to reduce the discomfort from the cognitive dissonance. On the other hand, there is no cognitive dissonance when participants were forced to invest in a company with the good moral image. So, the results of independent sample t-test showed a significant difference in the expected returns between investment attitudes in those companies with poor moral images only. However, there is no significant difference in expected returns company with good moral images.

Figure 5. Expected returns and 95%CI before and after the investment attitudes were induced for asset with negative impression of moral image



4. CONCLUSION

The market size of moral investment grew significantly in the past decades. The rapid growth has received considerable attention from the academics. Studies of moral investment mainly focus on the performance of the moral investment and the behaviour of the investors. Studies based on raw returns provide a mixed picture on whether moral investments underperform conventional investment (Otten et al., 2005; Benson et al., 2006; Bollen, 2007). However, on a risk-adjusted basis, most of the studies found no significant differences between returns of moral investment and conventional investment (Golfreyer & Diltz, 1999; Statman, 2000).

Among studies on the behavioural side of investors, studies showed that moral investors are less sensitive to past negative returns, but more sensitive to past positive returns (Bollen, 2005). Studies also suggested that moral investors are less likely to sell their investments compared to investors of conventional investment. This "stickiness" in investment behaviour gives a possible explanation to the finding that volatilities of moral investments are smaller than the volatilities of conventional investment (Lewis & Mackenzie, 2000).

One of the most important topics in moral investment is that whether moral investors are prepared to sacrifice part of the returns for their "moral behaviour". According to the study of Berry & Yeung (2013), despite financial performance is seen as valuable by moral investors, financial performance is not valuable enough to compensate in moral performance. Besides, Lewis & Mackenzie (2000) found that moral investors do not respond to a small shortfall in the financial performance of the moral investment, but wish to increase investment if the financial performance of a moral investment is slightly superior to that provided by conventional investments. Evidence suggested that moral investors are prepared to sacrifice part of the returns for their "moral behaviour" as long as a minimum amount of return is reached.

In our study, experiments showed that investors ask for a premium in return when they invested in a company with a poor moral image. We call this premium as immoral premium. In other words, investors expected less in moral investment. The findings agree with both the experimental and

empirical results from the previous studies. Previous empirical studies which based on raw returns showed that the return of moral investment is lower than conventional investment. Our findings suggest that the difference in the returns would be caused by the immoral premium. Our findings align with the previous experimental studies that moral investor is willing to sacrifice part of the returns for investing in a moral way.

We try to explore the moderator effect of the investment attitude on immoral premium. Our results show that investment attitude has no moderator effect on the immoral premium for a moral investment. In contrast, there is a statistically significant moderator effect on the immoral premium for companies with poor moral images. The findings suggest that the effect size of immoral premium can be manipulated by the investment attitude of investors. The finding can be used to explain the inconsistency among the empirical findings of returns in different markets. As it is not surprising that the investment attitudes of investors vary across markets, the effect of investment attitude on immoral premium varies with countries and markets as well. Therefore, the data based on raw returns from different markets gave an inconsistent conclusion.

According to our experimental results, the immoral premium is likely caused by the compensation for investors to overcome the cognition dissonance. When the moral investors invest in some "immoral" investment which violates their moral values, higher returns are asked to overcome cognitive dissonance. Therefore, a moderator effect appears in companies with poor moral images but not those companies with good moral images.

The findings in the study make the following contributions to the literature. First, different from most of the studies which focus on the performance and cost of moral investment, we study the expected return on investment from investors. We found that investors expect a lower return from moral investment than those from the conventional investment. This finding suggests the existence of a moral dimension in the investment decision. Second, we demonstrate the moderator effect of investment attitude on the relation between the moral image of companies and the expected returns of investors.

REFERENCES

1. Akerlof, G. (1980). A theory of social custom, of which unemployment may be one consequence. *Quarterly Journal of Economics*, 94(4), 749-775. <https://doi.org/10.2307/1885667>
2. Anand, P., & Cowton, C. J. (1993). The ethical investor: Exploring dimensions of investment behavior. *Journal of Economics Psychology*, 14(2), 377-385. [https://doi.org/10.1016/0167-4870\(93\)90007-8](https://doi.org/10.1016/0167-4870(93)90007-8)
3. Auer, B. R. (2016). Do socially responsible investment policies ass or destroy European stock portfolio value? *Journal of Business Ethics*, 135(2), 381-397. <https://doi.org/10.1007/s10551-014-2454-7>
4. Bauer, R., Derwall, J., & Otten, R. (2007). The ethical mutual funds performance debate: New evidence for Canada. *Journal of Business Ethics*, 70(2), 111-124. <https://doi.org/10.1007/s10551-006-9099-0>
5. Bauer, R., Koedijk, K., & Otten, R. (2005). International evidence on ethical mutual fund performance and investment style. *Journal of Banking and Finance*, 29(7), 1751-1767. <https://doi.org/10.1016/j.jbankfin.2004.06.035>
6. Bauer, R., Otten, R., & Tourani Rad, A. (2006). Ethical investing in Australia: Is there a financial penalty. *Pacific-Asian Finance Journal*, 14(1), 33-48. <https://doi.org/10.1016/j.pacfin.2004.12.004>
7. Bello, Z. (2005). Socially responsible investing and portfolio diversification. *Journal of Financial Research*, 28(1), 41-57. <https://doi.org/10.1111/j.1475-6803.2005.00113.x>
8. Benson, K. L., Brailsford, T. J., & Humphrey, J. E. (2006). Do socially responsible fund managers really invest differently? *Journal of Business Ethics*, 65, 337-357. <https://doi.org/10.1007/s10551-006-0003-8>
9. Berry, R. H., & Yeung, F. (2013). Are investors willing to sacrifice cash for morality? *Journal of Business Ethics*, 117(3), 477-492. <https://doi.org/10.1007/s10551-012-1529-6>
10. Blajer-Golebiewska, A. (2014). Do stock exchange indices based on reputational factors matter. *International Journal of Academic Research*, 6(4), 231-237.
11. Bollen, N. P. B. (2005). Investment attributes and investor behaviour: Evidence from socially responsible mutual funds. *Working paper series, Owen Graduate School of Management, Vanderbilt University*.
12. Bollen, N. P. B. (2007). Mutual fund attributes and investor behavior. *Journal of Financial and Quantitative Analysis*, 42(3), 689-708. <https://doi.org/10.1017/S0022109000004142>
13. Brammer, S., Brooks, C., & Pavelin, S. (2006). Corporate reputation and stock returns: Are good firms good for investors. *ICMA Center Discussion Papers in Finance, DP2006-05*, 1-28.
14. Burke, J. J., & Clark, C. E. (2016). The business case for integrated reporting: Insights from leading practitioners, regulators, and academics. *Business Horizons*, 59(3), 273-283. <https://doi.org/10.1016/j.bushor.2016.01.001>
15. Chen, R. C. Y., & Lee, C.-H. (2017). The influence of CSR on firm value: an application of panel smooth transition regression on Taiwan. *Applied Economics*, 49(34), 3422-3434. <https://doi.org/10.1080/00036846.2016.1262516>
16. Churet, C., Robeco, S. A. M., & Eccles, R. G. (2014). Integrated reporting, quality of management and financial performance. *Journal of Applied Corporate Finance*, 26(1), 56-64.
17. Cooper, J. (2011). Cognitive dissonance theory. In P. A. M. V. Lange, A. W. Kruglanski & E. T. Higgins (2nd ed.), *Handbok of Theories of Social Psychology* (pp. 377-395). London: Sage Publications.
18. Cullis, J., Lewis, A., & Winnett, A. (1992). Paying to be good. UK ethical investments. *Kyklos*, 45(1), 3-23. <https://doi.org/10.1111/j.1467-6435.1992.tb02104.x>
19. Domini, A., & Kinder, K. (1984). *Ethical investing*. MA: Addison-Wesley.
20. Etzioni, A. (1988). *The moral dimension*. New York: The Free Press.
21. Fehr, E., & Gächter, U. (1998). Reciprocity and economics: The economic implication of homo reciprocans. *European Economic Review*, 42(3-5), 845-859. [https://doi.org/10.1016/S0014-2921\(97\)00131-1](https://doi.org/10.1016/S0014-2921(97)00131-1)
22. Fehr, E., & Gächter, U. (2002). Altruistic punishment in humans. *Nature*, 415, 137-140. <https://doi.org/10.1038/415137a>
23. Festinger, L., & Carlsmith, J. M. (1959). Cognitive consequences of forced compliance. *Journal of Abnormal and Social Psychology*, 58(2), 203-211. <https://doi.org/10.1037/h0041593>
24. Geczy, C. C., Stambaugh, R. F., & Levin, D. (2003). Investing in socially responsible mutual funds. *Working paper series, Wharton School, University of Pennsylvania, Philadelphia*. <https://doi.org/10.2139/ssrn.416380>
25. Goldreyer, E. F., & Diltz, J. D. (1999). The performance of socially responsible mutual funds: incorporating sociopolitical information in portfolio selection. *Managerial Finance*, 25(1), 23-36. <https://doi.org/10.1108/03074359910765830>
26. Hamilton, S., Jo, H., & Statman, M. (1993). Doing well while doing good? The investment performance of socially responsible mutual funds. *Financial Analysts Journal*, 49(6), 62-66. <https://doi.org/10.2469/faj.v49.n6.62>
27. König, F. (2016). Analyst behavior: The geography of social interaction. *Journal of Behavioral Finance*, 17(3), 201-216. <https://doi.org/10.1080/15427560.2016.1171223>
28. Kreander, N., Gray, G., Power, D. M., & Sinclair, C. D. (2005). Evaluating the performance of ethical and non-SRI funds: A matched pair analysis. *Journal of Business, Finance and Accounting*, 32(7), 1465-1493. <https://doi.org/10.1111/j.0306-686X.2005.00636.x>
29. Lea, S. E. G., & Webley, P. (2006). Money as tool, money as drug: The biological psychology of strong incentive. *Behavioral and Brain Sciences*, 29(2), 161-209. <https://doi.org/10.1017/S0140525X06009046>
30. Lewis, A. (2001). A focus group study of the motivation to invest: 'Ethical/green' and 'ordinary' investors compared. *Journal of Socio-Economics*, 30(4), 331-341. [https://doi.org/10.1016/S1053-5357\(01\)00103-2](https://doi.org/10.1016/S1053-5357(01)00103-2)
31. Lewis, A., & Mackenzie, C. (2000). Morals, money, ethical investing and economic psychology. *Human Relations*, 53(2), 179-191. <https://doi.org/10.1177/a010699>
32. Lewis, A., & Webley, P. (1994). Social and ethical investing: Beliefs, preferences and the willingness to sacrifice financial return. In *Ethics and Economic Affairs*, eds. A. Lewis and K. E. Warneryd (pp. 171-182). London: Routledge.
33. Lewis, A., Webley, P., Winnett, A., & Mackenzie, C. (1998). Morals and markets: Some theoretical and policy implications of ethical investment. In Peter Taylor-Gooby, ed., *Choice and Public Policy: The*

- Limits to Welfare Markets* (pp. 164-182). London: Macmillian.
34. Luther, R. G., Matatko, J., & Corner, D. (1992). The investment performance of UK ethical unit trusts. *Accounting, Auditing and Accountability Journal*, 5(4), 57-70. <https://doi.org/10.1108/09513579210019521>
 35. Mackenzie, C., & Lewis, A. (1999). Morals and markets: The case of ethical investors. *Business Ethics Quarterly*, 9(3), 439-452. <https://doi.org/10.2307/3857511>
 36. Mallin, C. A., Saadouni, B., & Briston, R. J. (1995). The financial performance of ethical investment funds. *Journal of Business Finance and Accounting*, 22(4), 483-496. <https://doi.org/10.1111/j.1468-5957.1995.tb00373.x>
 37. Otten, R., Bauer, R., & Koedijk, K. (2005). International evidence on ethical mutual fund performance and investment style. *Journal of Banking and Finance*, 29(7), 1751-1767. <https://doi.org/10.1016/j.jbankfin.2004.06.035>
 38. Piff, P. K., Stancato, D. M., Côté, S., Mendoza-Denton, R., & Keltner, D. (2012). Highersocial class predicts increased unethical behavior. *Psychological and Cognitive Sciences*, 109(11), 4086-4091.
 39. Renneboog, L., Horst, J. T., & Zhang, C. (2008). Socially responsible investments: Institutional aspects, performance, and investor behavior. *Journal of Banking and Finance*, 32(9), 1723-1742. <https://doi.org/10.1016/j.jbankfin.2007.12.039>
 40. Romer, D. (1984). The theory of social custom: A modification and some extensions. *Quarterly Journal of Economics*, 99(4), 717-727. <https://doi.org/10.2307/1883122>
 41. Schroder, M. (2004). The performance of socially responsible investments: Investment funds and indices. *Financial Markets and Portfolio Management*, 18(2), 122-142. <https://doi.org/10.1007/s11408-004-0202-1>
 42. Statman, M. (2000). Socially responsible mutual funds. *Financial Analysts Journal*, 56(3), 30-39. <https://doi.org/10.2469/faj.v56.n3.2358>
 43. Tinjala, D.-M., Pantea, L. M., & Buglea, A. (2015). 2010-2014: A comparative evolution of sustainability reporting and its assurance in Europe and the USA. *Timisoara Journal of Economics and Business*, 8(1s), 48-69.
 44. Weber, O. (2014). Environmental, social and governance reporting in China. *Business Strategy and the Environment*, 23(5), 303-317. <https://doi.org/10.1002/bse.1785>
 45. Webley, P., Lewis, A., & Mackenzie, C. (2001). Commitment among ethical investors: An experimental approach. *Journal of Economic Psychology*, 22(1), 27-41. [https://doi.org/10.1016/S0167-4870\(00\)00035-0](https://doi.org/10.1016/S0167-4870(00)00035-0)
 46. Xie, W., Yu, B., Zhou, X., Sedikides, C., & Vohs, K. D. (2014). Money, moral transgressions, and blame. *Journal of consumer psychology*, 24(3), 299-306. <https://doi.org/10.1016/j.jcps.2013.12.002>

Appendix

A. News used to induce a positive impression on the moral image in the study

Article 1

Cheung Kong Group responds actively to Government's "Carbon Audit" scheme: Three Cheung Kong members joined the "Carbon Audit and Green Organization"

Cheung Kong Group has been actively promoting environmental protection, its three member companies, including Cheung Kong (Holdings) Limited, HK Electric and Hongkong International Terminals Limited (HIT) were the first to respond to a government guideline on "Carbon Audit" for buildings launching today, to become "Carbon Audit, Green Organizations". They promised to promote the audit of carbon emissions under the Carbon Reduction Pledge, to reduce greenhouse gas emissions so as to create a cleaner Hong Kong.

At the launching ceremony held today, there are about 30 groups of companies became "Carbon Audit, Green Organizations", of which 15 were commercial organizations. Cheung Kong Group occupied three seats, is the single enterprise group company that has the largest participation from its members.

Through its two property management companies, Goodwell Property Management Limited and Citybase Property Management Limited, Cheung Kong (Holdings) Limited arranged a total of 20 commercial and residential properties to participate in "Carbon Audit", involving 30,000 residential units. In fact, Goodwell and Citybase have been promoting and implementing different environmental protection measures in their daily property management. These measures are the most

important parts of Government's "carbon audit" guidelines for buildings. Upon further implementation of the measures, Goodwell and Citybase will conduct a more systematic way to audit carbon, to report, to review and to improve their performance in accordance with the government guidelines.

HK Electric will conduct "carbon audits" for offices and set clear targets on energy saving. Meanwhile, HK Electric has already implemented a number of energy-saving measures in buildings, such as shortening the operation time of air-conditioning systems and turning off exterior lightings of buildings. The company will further promote the ways of energy-saving methods to staff in the office. Regarding electricity generation, HK Electric will continue to reduce greenhouse gas emissions through the use of natural gas and renewable energies.

HIT is also committed to protecting the environment and resources, besides meeting the business needs, it also upholds corporate ethics and social responsibility. The environmental protection measures adopted by HIT in conserving energy include the use of solar water-heaters, the control of room temperature and indoor airflow, the reduction in lubricant, hydraulic oil and paper consumption, and the recycling of waste.

Article 2

Cheung Kong Group to help the public welfare fund

Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited and Cheung Kong Infrastructure Holdings Limited have cooperated with The Community Chest, Hong Kong, for years, and became one of the three organizations raised the

largest amount of funds for 13 consecutive years. This year, Cheung Kong Group continues to support the Rainbow Fund of The Community Chest, kicked off the Cheung Kong donation hotline last Saturday. It is the eighth year of fund raising and raised an impressive amount of fund from the public.

In a fund-raising TV show, "Community for the Chest", Cheung Kong Group donated a sum of money matching to the amount raised through the donation hotline "18282", made the fund doubled for Community Chest.

Through the appeal from Cheung Kong group, more than 4,000 donation calls were received during the night show. To help more people, Cheung Kong group even raised the matching amount that made the amount of donation increased by a quarter. Adding up the public donation and Cheung Kong group's matching, a very large of money had been raised for The Community Chest as well as the Rainbow Fund, by the Cheung Kong donation hotlines.

Yesterday, Cheung Kong group's, Managing Director and Deputy Chairman Victor Li Tzar-kuoi signed a big cheque and sent it to the co-chairman of Fund Raising Committee of The Community Chest, Lee Yeh-Kwong.

Rainbow Fund of The Community Chest has launched for many years, providing short-term transitional assistance to distressed families and individuals. Over the years, the fund had allocated more than \$10M to help people in need of immediate assistance, more than 34,200 had been benefited. In the last year, near 3,700 people were helped.

Article 3

Cheung Kong Group donated to build a national swimming centre

Cheung Kong Group: Cheung Kong (Holdings) Limited, Hutchison Whampoa Limited, Cheung Kong Infrastructure Holdings Limited and HongKong Electric Holdings Limited, together with other affiliated companies donated a total of HK\$ 100 million for building the National Swimming Centre. As one of the main venues of the Olympic Games, the National Swimming Centre will become a sports venue, at the international and advanced level, committed to events like swimming, diving, synchronized swimming, and water polo.

The donation ceremony was held at the Peijing Room of Great Hall of the People in Beijing Office today. Mayor of Beijing Wang Qishan accepted the donation from the managing director and deputy chairman of Cheung Kong (Holdings) Limited, Victor Li Tzar-Kuoi. Li Tzar-Kuoi said in the spectacular 28th Olympic Games, the Chinese sports athletes were bold before the strong competitors and had been struggled hard. As a result, they had made unprecedented excellent results. Their outstanding achievements had shown to the world the ever-improving and industry characters of the Chinese race. To prepare for the Beijing Olympic Games, Cheung Kong Group is willing to make efforts for the capital's economic construction and development.

Liu Qi, member of Politburo Standing Committee of the Communist Party of China pointed out at the ceremony that the economic development

at the capital was fast, social enterprises have been improving, and the preparatory work of the Olympic Games had achieved the targets at different stages. The construction of the national swimming centre, that manifest the unity spirit of Chinese, was in good progress. He expressed his gratitude to Cheung Kong Group for supporting the construction of the National Swimming Centre. He mentioned that Cheung Kong Group has been concerning and supporting the development of the mainland, made a great contribution by participating enthusiastically in the economic development of Beijing city.

Article 4

LINK: "Love and Link Programme"

The establishment of LINK's "Love and Link Programme", a charitable and community programme of Link Real Estate Investment Trust (REIT), is to help qualified charitable organizations provide social services to areas nearby properties of LINK, to foster the community's sustainability, and to realize the vision of LINK on "serving the community and raising people's living standard in the community".

Actively striving for the benefits of elderly and the underprivileged, and to provide education, training and development opportunities to children and youths in neighbourhood communities, LINK's Community Sports Institute' recreational facilities had been providing free sports trainings to thousands of youths.

LINK had reserved part of its internal room areas to charitable and non-profit organizations, with rental concessions. Besides, LINK promised to spend money on building more facilities with "barrier-free access".

Article 5

Lucky Draws Every Day in LINK's 54 Markets

To attract more housewives to purchase in markets, 54 Markets of LINK will provide daily lucky draws in coming twelve weeks starting tomorrow. Four purchase coupons will be given out in each market and all participants can enter the final draw, earning consumption coupons with large money value, and bring back more food to the families.

You can join by just buying an egg

More than 3,400 stalls of 54 markets in Hong Kong joined the "Consumption coupon of LINK markets daily rewards" programme. Four coupons will be given out in each market every day. The General Manager of LINK REIT, Sung Chu Siu-Lin, said, "Customers can have opportunities to get coupons if they purchase specific food or items on particular days. For example, vegetables on Monday, frozen meats on Tuesday ... irrespective of the amount they spent. There are chances to win even you have just purchased a catty of vegetable, an egg or a unit of fruit."

There are lucky draws for senior citizens. Among the 210 lucky fellows found every day, half of the quota will be given to people with senior cards, such that senior citizens will a greater chance to win. All participants are entitled to the ultimate draw in March next year. There will be two prizes

and the awardees will be given consumption coupons.

Besides, LINK will donate rice to food banks of St. James' Settlement, according to a rate 1 lucky draw certificate issued for 1 kilogram of rice. It is expected tons of rice will be delivered to people who are in need.

Article 6

Business information centre of LINK uses Megaman energy-saving bulbs, to reduce electricity consumption and release of carbon dioxide

To protect the environment, LINK Asset Management Limited uses Megaman energy-saving bulbs in its new business information centre. It is expected 9,979 watts of electricity can be saved and 9.95 tons of carbon dioxide release could be reduced in a year.

The LINK Business Information Centre, situated at Foo Cheong Shopping Centre, Shum Wong Road, Sham Shui Po, Kowloon opened as a one-stop platform to provide useful and latest information on shop designs, such that designs of different industries, and reference information for design and renovation, and information on leasing, are demonstrated to business tenants. The information centre also provides several exhibition areas with different themes, such as food and drinks, fashions, and new products. Different exhibition areas are illuminated by Megaman energy-saving bulbs because Megaman can provide professional and high-quality energy-saving products that facilitate the promotion of environmental-friendly lightings. Megaman products are also shown in one information area inside the information centre, giving latest information to business tenants and help the shops to create a "Green" illumination area, and realize a better business environment.

B. News used to induce a negative impression on the moral image in the study

Article 1

"Praying for rain" or reforming "the City of the Li family"

There was a short essay, "Praying for Rain" written by Zhao Shuli, found in a high-school textbook. It was a story about the restoration of waterworks in a village before and after the land reform.

Before the land reform, there was a big landlord, Zhou Bayuan, who was a village leader and was owning half of the land of a village. This character once said, 'As a leader, I do pray for rain. However, it is only a gesture because I don't care if it rains or not. Actually, half of the land in Jin Duo Ping is mine, if it rains, I will have more food produce; if it does not, I can buy the other half of the village land by paying a bushel of rice for one acre of land.' From the view of the peasants, "Out of hunger we kneel and burn the incense, but you dare not selling the food to us. We have prayed for rainfalls for a dozen times, but you buy an acre of our land by giving us just one bushel of rice, now, half of the lands in Jin Duo Ping become yours".

If the big landlords, who own the land and ample capital, are controlling the village government, then they would not have an incentive to improve the waterworks or the basic economic

structures, since they can benefit no matter it rains or not. On the other hand, they would like to take the leading role in "rain-praying" so as to unite the people and to provide moral legitimacy for their monopoly status. The landlord class needs not cultivate their land directly, as the rent they receive has enabled them to live a prosperous and wealthy life. Whenever they are controlling the social surplus, they have no initiatives to develop production further.

Today in Hong Kong we too have a similar ruling group - Li Ka Shing's finance and property group. They are similar to the landlords in old days because they can reap great profits without changing the basic economic structure. When facing economic difficulties, landlords prayed for rainfalls to soothe the mind of people in the past; now the media, controlled by billionaires, obtain their political rightness by attacking the policies of the mainland. From this, we can say: history is never new. If we look for solutions, the confiscation of land from Jin Duo Ping landlords in the past had brought better lives to the villagers; similarly, if the oligopolistic control in the economy cannot be removed, it is very unlikely that people's income in Hong Kong can be raised. Hong Kong, are you still doing well?

Article 2

Lawful but also shameful: Cheung Kong gives unequal contracts to small tenants

Fortune Real Estate Investment Trust, a subsidiary of Cheng Kong (Holding) Ltd., owns the Man Yau market and the food plaza of Belvedere Garden, Tsuen Wan. Ten days ago, the tenants were informed suddenly that their contracts would be terminated one year earlier than the stated term. Some tenants, who had used up their savings in signing the contract, lost everything due to the sudden notice of closure. Shop tenants criticized that Cheung Kong was bullying the small business operators, and they might go to protest at Cheng Kong Center, and the incident might become a replication of the protest of dock workers of HIT.

There were 49 shop operators at Man Yau market and food plaza of Belvedere Garden, and many of them had run their business there for over ten years. They received a notice from the management company suddenly that required all tenants to sign a new three-year tenant contract. Some shoppers said they were illiterate and had not read the contract fully. The management company suddenly informed the tenants that the owner would terminate the contract earlier, and all the tenants were asked to vacate the shops in three months' time. And they heard that the market would become Park'N Shop Super Plaza.

Closed after two months' operation

Ho Ka-Chun, 23 years old, said his parents had run their business in Man Yau market for more than 10 years, earning a small income by selling steamed rib rice bowl at a price slightly higher than \$10. His parents gave Ka-Chun \$300,000 to open a food store inside the market, so the father and the son can work together. While they had used the money to furnish the store and starting to purchase food, they

received the “moving-out” notice. “Two shops are gone, with one shut down before it starts the business. I don’t know what to do”, said Ka-Chun sadly.

Another victim, Kevin, was a starter in business. He was attracted to open a shop in the market because of good pedestrian flows and low rentals. He used his \$200,000 saving to start the business but was facing a shut down just after two months. He felt he was deceived by the landowner.

Fortune Real Estate Investment Trust, owns the Man Yau market at Belvedere Garden, is a wholly owned subsidiary of ARA Asset Management Ltd. which is a member of Cheung Kong (Holding) Ltd. Fortune outsourced the daily management of the wet market to Wang Chap Strategic Ltd. Wang Chap then acted as an agent and signed “temporary borrowing contracts” with the small shoppers. The contract stated that if the landowner terminates the leasing contract with Wang Chap, Wang Chap can terminate the contracts with the small shoppers, provided a 30-day notice, without compensation.

Fortune REIT replied that the resumption of shops is solely for the purpose of renovation, and its act had not breached the contracts. But whether the market will be occupied by Park’N Shop Super Plaza, it was yet to be determined.

Changes in use may violate the land lease

Legislative councillor Ho Chun-Yan criticized that the lease contract was unreasonable. He would meet and discuss the issue with the sub-contractor and Cheung Kong (Holding) Ltd. If required, he would “Go to Central” with the shoppers, and follow the dock workers to protest outside Cheung Kong Center. Ho queried that if the landowner changes the wet market to a supermarket, it might violate the land lease. Or if the court finds the contract terms unreasonable, the lease might not be recognized.

Luk Wai-Hung, a barrister, pointed out that according to the contract terms, tenants are “borrowers” only. Borrowers agreed to give up their privileges in case they are expelled, evicted, or when contracts are terminated. “Anyone who signs a contract will strive for his/her greatest benefit, how come they arrived these terms, just like an unequal treaty? Although it might not break the law from the legal perspective, the act is absolutely shameful!”

Article 3

Ugly hegemonism

When interviewed by the Southern News Group, Li Ka-Shing was quite discontented with his influence on the business in China and in Hong Kong. His pseudo-art in language was really good. His denial of the existence of real-estate hegemony, which is well-known to everyone, is totally nonsense! The several large property developers in Hong Kong had been colluding with the government over the last few decades. They employed those retired senior government officials who had been responsible for managing construction, property development, transportation, and district issues, to work in their subsidiary companies and to liaise with government officials to strive for the interest of the developers. That results in a situation that other developers cannot effectively compete with these large

developers. These large developers can easily change the use of land, obtain more buildable area, and persuade the government to build billion-dollar high-flyers to reach their properties. They know how to evade the complicated government regulations, whereas other companies could not make any progress even in 30 years’ effort. These large property developers, led by Cheung Kong (Holding), used the same method to monopolize the market. Li Ka-Shing said he himself was not involved in real-estate hegemony, but his acceptance of a high-profile interview is apparently a protest against the central government. This oligopolist who has been used to hegemonism, his face is really ugly!

Article 4

Bad measures to expel small business by LINK, a new wave of leasing withdrawal is about to start

Since LINK took control of the majority of shopping arcades of Hong Kong Housing Authority and started renovations, it has been accused of raising rentals in a crazy manner. Five shopping arcades are going to be renovated soon, and a wave of lease withdrawals is about to start. According to a report of the newspaper Wen Wei Bao, LINK had adopted many “bad measures”: great rises in rental, forced eviction, tenants were requested to prove their business performance by professional accountants, tenants had to share profit with LINK at a ratio of 9:1, potential tenants of a “Good” shop were asked to rent a “Poor” shop together in a bundle. Some tenants criticized LINK as a vampire, and they determined to withdraw the lease rather than exploited by LINK continuously. A spokesman from LINK responded that there were discussions with tenants before the rise in rentals, and the profit-sharing rental was actually a “normal” practice in the industry.

According to the annual report of LINK, seven shopping arcades had started renovation, included Tai Yuan Shopping Centre at Tai Po, Leung-King Shopping Centre at Tuen Mun, Tin Shui Shopping Centre at Tin Shui Wai, Sun Tsui Shopping Centre at Shatin, Sheung Tai Shopping Centre at Tseung Kwan O, Oi Man Shopping Centre at Homantin and Stanley Plaza. Amongst them, the renovation works at Stanley Plaza and Tai Yuan Shopping Centre had finished already. The other five would finish in this year and in the next.

Renovation works at Tai Hing and rising rentals triggered the withdrawal of lease

Cheung Man Wai, a member of LINK Monitor, indicated that renovation works by LINK had raised the value of its shopping arcades, but LINK took the opportunity to raise rents drastically. If tenants cannot afford the rental increase, they would be relocated or even evicted. She also said many tenants had chosen to shut down their business, instead of being exploited by LINK, led to a wave of lease withdrawal.

Sun Tsui Shopping Centre at Shatin had finished renovations in the middle of the year, according to a reporter there; there were a chain-restaurant and a home appliance shop on the first floor. However, most of the shops on the second floor were still unoccupied. The reason for shoppers

moving out from the centre due not to the poor management, but because of LINK's "spicy measures". Mr Chan, who had run a hair salon in the arcade for years, mentioned that there were new arrangements in profit-sharing under the new contract. Tenants were asked to provide an auditor's report on their business performance and an electronic version has to be submitted to LINK, otherwise the contract will not come into effect. Besides, there is a clause stated that in case the shopping centre has to be renovated, tenants have to accept relocation arrangements unconditionally. Facing all those "unequal treaties", Mr Chan criticized that LINK is inhumane, and he determined to find another successor to take his shop. It is heard that, once the tenants supplied their business performance to LINK, they have to share their profit with LINK at a rate 9:1.

For optimization of properties, profit sharing is a norm

Mr Chan ran a drugstore inside the shopping mall for 5 years but will close his business next month. He mentioned that during the discussion on lease renewal, LINK requested a higher rent due to the reason that "drugstores earned the greatest". He accused LINK as a vampire, ignore the interest of small shops, but earn as much as it can. "Since the monthly income cannot cover the rental, so I would choose to close the business and become an employee, rather than serving as a slave of LINK." Mr Chan also pointed out that around five to six tenants on the second floor of the shopping mall had been evicted, include a laundry shop, a photo studio and a beauty shop. A newspaper stall was also asked to pay a doubled rental, and it finally chose to leave.

The spokesman from LINK stressed that its property rentals would be revised upward yearly, but the increase is made reference to the market level as well as the conditions of individual shops, and there were always discussions with tenants. Regarding the problem of "profit-sharing", the spokesman said the rental-sharing practice was a norm in the industry, created with an aim to collect more information on the operation of shops, so as to facilitate promotional works. And base on different situations, LINK will request shops to share their profit differently. "During the optimization process of properties, LINK will maintain sufficient communication and will make a response to the complaints from tenants. After all, small shops have been the most important parts of LINK's retailing properties, and their number has been increasing", said the spokesman.

Article 5

Unceasing negative news dampened the image of LINK

Two thousand people, including owners and employees of Ming Oak Restaurant, initiated a massive strike against LINK for not keeping the promise on the renewal of 6-year leases.

Since LINK's successful listing on the stock exchange, though less than two years, negative news on the company have been unceasing. Rumours on changes in the management board, and incidents on "rental increase", "layoffs of employees", "eviction of

tenants", had given rise to rounds of protests and petitions. The company image had fallen into a trough. LINK was criticized not only by ordinary citizens, small business owners but also by councillors. LINK took over the management of 180 shopping malls and car parks from Hong Kong Housing Authority since its listing, but in this less-than-two-years period, demerits of LINK outweighed merits. In fact, there were never-ending complaints from tenants of shopping malls in public housing estates and of wet markets, and on LINK's rental policy. Many meetings of appeal and complaint had been organized by councillors and labour unions, and LINK was accused of its crazy-increase in a rental, led to closures of many businesses. Physicians who were operating in housing estates also complained that, due to the increase in rentals, they had to raise their consultation fees too. Besides, the third increase in LINK's car park rentals, they had aroused the anger of the public, given rise to car-protests by moving in slow motion.

Restaurants on strike because contract renewals

Among the series of events due to rises in a rental, Fung Tak Restaurant at Tsz Wan Shan was forced to close its business because its lease could not be renewed, and LINK failed to provide a reason for that. The event aroused another 70 restaurants, also not given new contracts, to shut down their businesses during the tea-time in the afternoon, and made two thousand people, both the restaurant owners and workers, marching in the streets to protect their rice-bowls on one hand, and protest against LINK's failure of keeping a 6-year contract renewal promise on the other. LINK replied strongly that the company would be responsible to investors only, and that ignited discontents of the public and the media.

The public was shocked not only by LINK's crazy-rise in the level of rental but also the exploitation on workers by LINK's outsourcing contractors. Since the listing of LINK, there were reports that it's outsource contractors had changed the mode of "three shifts" to the mode of "two shifts", in order to reduce manpower. By merging jobs together and asking employees to take care of additional duties, the contractors reduced staffing indirectly. Estimation from the labour unions showed that, the number of security guards and janitors laid off by LINK amounted to more than three thousand, but those who could stay employed were forced to increase their work hours from eight to twelve. Since then, LINK had been described as "inhumane and ignored social responsibility".

Article 6

Groups from Tin Shui Wai accused "LINK monopoly" led to high prices, and urged the government to step in

LINK runs many shopping malls in Tin Shui Wai. Some focus-groups discovered that LINK had upgraded many shopping malls. Individual operating units were upgraded to small and medium-sized chain-shops, and malls in housing estates were upgraded to become regional shopping centres. Consumption choices available to residents were reduced and they have to pay more in the purchase

of daily utensils and stuff, otherwise, they have to make their purchase in other districts like Tuen Mun or Yuen Long. The unit of investigation suggested specific groups had to be formed by the government, to deal with problems of high product prices and monopoly in Tin Shui Wai.

A social worker group at Tuen Mun released a research report on "LINK hegemony in Tin Shui Wai" yesterday. The research, carried out in last few years, was divided into two parts: field investigation and questionnaire. Amongst the 206 respondents, more than 70% believed the cause of high prices in Tin Shui Wai was the monopoly status of LINK. 65% of respondents agreed the rentals of LINK markets/shopping malls were too high. When asked about possible solutions for Tin Shui Wai's high prices, 58.3% responded that the number of government-run markets/malls has to be increased; and half of the respondents believed there should be a rental reduction by LINK.

Many residents do their purchase across districts

By analysing the research results, it is found that, after the enhancement of assets and restructuring of properties of LINK, many shopping malls in Tin Shui Wai had been upgraded. Business tenants were changed from individuals to medium- and small-sized chain stores and many shopping malls in housing estates had been converted to

regional shopping centres. Making Tin Shui Wai to be similar to Sheung Shui and Tin Shui Wai residents had fewer choices in consumption. They were forced to pay more in buying daily necessities, or do their purchase in another district like Tuen Mun or Yuen Long. Legislative councillor Leung Yiu Chung mentioned, in a reporters' meeting, that not only malls and markets in Tin Shui Wai were monopolized, food shops were also monopolized, and there was not even a cooked-food centre found in the district.

The groups recommended that a "cross-departmental focus-group" should be established by the government to find ways solving the problems of high product prices and monopoly in Tin Shui Wai. They believed the government should consider the followings: add a market and a cooked-food centre to the lower floor of a proposed Home-Ownership Scheme housing estate at Tin Wing Light-rail station; convert a vacant parking area into a marketplace; expand and convert Tin Ching shopping mall to a wet market; or build or convert land of other usage into markets.

The groups also proposed that government should have more supervisions on LINK or to purchase back some of LINK's properties. They also suggested that all retailing facilities of the newly built public housings should not be sold to LINK, and purchase some retailing properties of LINK back.