Judgments of ethically-questionable financial practices: A new perspective

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Abstract

Purpose – Research has suggested that ethics judgments should be made from an impartial perspective. However, people are often partial about their money. This study aims to investigate the extent to which perspectives – the perspective of those who can gain from the use of a financial practice and the perspective of those who can incur losses due to it – affect lay people's ethics and legality judgments of the practice. In addition, it asks which factors influence their investment intentions.

Design – The study uses a between-participant scenario experiment, in which participants are presented with cases of predatory trading and front running. Each participant is asked to take either a gain or loss perspective through the formulation of the presented cases. Subsequently, all participants make ethics, legality, and investment intention judgments.

Findings – We establish that perspectives significantly affect people's ethics judgments and, to a lesser extent, their legality judgments. People's investment intentions depend on their perspectives, too, as well as on their financial considerations, ethics judgments, legality judgments, and trust.

Originality – Research has focused on relatively stable determinants of financial practice ethics judgments. This paper shows that the situational prospect of profit can sway lay people's judgments. When people take the gain perspective, they judge financial practices to be more ethical than when they take the loss perspective. Furthermore, people's perspectives can distort their legality judgments and influence their investment intentions.

Keywords: Ethics judgment; Legal judgment; Perspective taking; Predatory trading; Front running.

Article classification: Research paper.

1. Introduction

Philosophers have postulated that ethics judgments should be impartial. Thus, they have suggested that people should attempt to make judgments assuming that they are unaware of the implications of the judged matter on their own lives (Rawls, 1958). Drawing on these principles, theoretical ethics research has analyzed the ethicality of financial practices (Angel and McCabe, 2009; 2013). However, in financial markets, practitioners may use ethically-questionable practices that are designed to profit at the expense of others. In such cases, market participants only rarely take a neutral perspective. In this study we ask how being partial affects lay people's judgments of financial practices. Specifically, we investigate how the perspective that people take - that of the winners or that of the losers – impacts their ethics judgments. In addition, we investigate how perspectives influence people's practice legality judgments and investment intentions. Finally, we examine which factors other than people's perspectives affect their investment intentions, and characterize their support of financial practice regulation.

Throughout the paper, we focus on two financial practices: predatory trading and front-running. Predatory trading is a trading technique, that exploits information about other investors' need to trade (Brunnermeier and Pedersen, 2005). It is often profitable for the practitioners who use it. However, it harms the investors who need to trade. Predatory trading is commonly used (Dyakov and Verbeek, 2013; Takahashi and Xu, 2016). For instance, the recent case of GameStop exemplifies predatory trading (Hasso *et al.*, 2021). However, predatory trading is not explicitly regulated, and its legality depends on the way in which the exploited information was obtained. Front running has been defined to be the practice of "entering into an equity trade, options or futures contracts, with advance knowledge of a block transaction that will influence the price of the underlying security, to capitalize on that trade" (Harvey, 2018). If the pending orders have been inferred from market activity and have not involved a breach of trust, then the practice is legal (provided that additional conditions are met). However, if the information about the pending transaction has been obtained via a breach of confidence, front running is deemed illegal. As an example of alleged front-running, in 2020, Citadel Securities paid $700,000 to resolve the Financial Industry Regulatory Authority (FINRA) claims, that it traded for itself ahead of its clients' orders (Robinson, 2020). Both predatory trading and front running are often considered ethically-questionable, regardless of their legality (e.g. Clunie, 2011; Lewis, 2010).

In accord with research on the ethicality of financial practices (Sobolev and Clunie, 2021) and business ethics research (Sobolev and Voege, 2019; Valentine and Rittenburg, 2004), we define 'ethics judgments' to be the extent to which people consider practices to be good or bad. We refer by 'legal judgments' to the extent to which they consider them to be legal. We use the term 'regulation support' to describe people's support of regulation aimed at limiting these practices. Adapting previous conceptualizations of the notion of behavioral intention (e.g. Singh *et al.*, 2020; Stylianou *et al.*, 2013) to the context of our study, we use the term 'investment intention' to denote people's assessment of the likelihood that they would let a fund manager, who uses the judged practices, invest their money. People's intentions have been found to mediate the relationship between their judgments and actions (O'Fallon and Butterfield, 2005).

A large body of research has explored people's ethics judgments (O'Fallon and Butterfield, 2005). In particular, drawing on prospect theory (Kahneman and Tversky, 1979), research on organizational judgments has shown that the financial state of a firm (gain versus loss) affects people's fairness judgments of organizational actions, such as wage cuts (Bies *et al.*, 1993; Kahneman *et al.*, 1986). Nevertheless, surprisingly little research has investigated how people judge the ethicality of financial practices. The few papers which examined the determinants of people's judgments have shown that they are influenced by personality traits, age, gender (Terpstra *et al.*, 1993), culture (Statman, 2009), perceptions of the social contribution of the practices (Sobolev, 2020), and legal criteria (Sobolev and Clunie, 2021). In contexts other than finance, a separate stream of research has examined how perspective taking affects people's judgments on issues such as fairness judgments of resource allocations (Epley *et al.*, 2006), institutional sexism (Simon *et al.*, 2019), and retribution judgments (Li *et al.*, 2020). However, no study has explored how people's perspectives affect their ethics judgments of financial practices. Furthermore, research has demonstrated that perspective taking effects are often action-specific (Kulibert and Thompson, 2019) and hence results about the judgments of non-financial actions cannot be directly generalized to judgments of financial practices.

Using an experiment, we find that the perspectives that people take affect their ethics judgments. In particular, when people take the perspective of those who can gain from a financial practice, they judge it to be more ethical than when they take the perspective of those who can incur losses due to it. We establish that perspective taking also influences people's legality judgments of the practice, although it does so to a lesser extent than it affects their ethics judgments. We show that people's judgmental perspectives determine their investment intentions, which are related to their regulation support. We demonstrate that people often judge predatory trading and front running to be ethical. Finally, we show that in addition to perspectives, people's investment intentions depend also on their ethics judgments, legality judgments and trust.

Our results contribute to the emerging literature on financial practice judgments by characterizing people's ethics judgments as situation-dependent. Whereas studies examining the determinants of people's ethics judgments have focused on relatively stable determinants such as gender, personality traits, and culture (Terpstra *et al.*, 1993; Statman, 2009) as well as objective legal determinants, such as the legality of the exploited information (Sobolev and Clunie, 2021), our results show that subjective, situational factors influence ethics judgments, too. Put differently, they suggest that the prospect of making money using a practice can sway people's ethics judgments of the practice. As we show that people's perspectives influence their ethics judgments more than they affect their legality judgments, our results imply that ethics judgments are more susceptible to perspective taking than legality judgments. By emphasizing that profit consideration may outweigh ethics considerations, this study identifies the boundaries of the influence of ethics judgments on investment intentions.

In addition to theoretical contributions, our results have applications for financial firms and regulators, educators, and finance researchers. Financial firms often formulate codes of conduct that guide employees' behavior towards a range of stakeholders. However, our results suggest that those stakeholders, who may lose from the use of a given practice, are likely to judge it more negatively than others. Hence, our results suggest that codes of conduct may include contradictory guidelines. Thus, they highlight the importance of clear code formulation. However, demonstrating that those who take the losers' perspective make harsher ethics judgments than those who take the gain perspective suggests also that educating people to take different perspectives could increase their sensitivity to ethics. Therefore, our results have applications for the development of ethics education programs. Finally, by elucidating people's justifications for their investment intentions, we provide finance researchers with insights that could be used for utility-based models of portfolio choices.

2. Perspective taking effects: Literature background and hypothesis development

Research has investigated perspective taking in two ways: as a process and as a personality trait. As a process, perspective taking has been defined to be "the process of imagining the world from another's vantage point or imagining oneself in another's shoes" (Galinsky *et al.*, 2005, p. 110). As a personality trait, it has been conceptualized to be people's tendency to take other people's perspectives (Cojuharenco and Sguera, 2015). Throughout this paper, in accord with the first definition, we conceptualize perspective taking as a process. We examine the question, whether when people take the perspective of those who can gain from a financial practice, they reach different judgments and investment intentions from the ones reached when they take the perspective of those who can lose from it.

Research has not explored this question. However, in contexts other than financial practices, research has produced a wide range of results about perspective taking effects. On the one hand, studies have demonstrated that perspective taking can affect people's judgments directly. For instance, a study about resource allocation has established that when people take other people's perspectives, they tend to make less self-centered judgments (Epley *et al.*, 2006). When they take the perspective of a woman claiming institutional sexism, they make more discrimination judgments compared to when they take an emotionally detached perspective (Simon *et al.*, 2019). Taking war perpetrators' perspectives reduces retribution support (Li *et al.*, 2020). Imagining the day of the crime (e.g. vehicular manslaughter) from the defendant's perspective leads to lenient judgments, including a decrease in the probability of guilty verdicts (Skorinko *et al.*, 2014). On the other hand, research has established that perspective taking may have complex and indirect effects on people's judgment and behavior. For example, a study has shown that perspective taking can result in both forgiveness or condemnation, depending on the initial perceptions that the judge has towards the transgressor (Lucas *et al.*, 2016). Actively adopting the perspective of other group members could evoke cynical theories about their behaviors, and lead to self-interested behaviors (Caruso *et al.*, 2006). Furthermore, perspective taking influences judgments of technology/online forms of partner infidelity but not of emotional/affectionate behaviors or sexual/explicit behaviors (Kulibert and Thompson, 2019). Hence, perspective taking effects are action-specific.

Thus, in contexts other than financial practice judgments, research has shown that although gain and loss considerations could impact people's ethics judgments (Kahneman *et al.*, 1986), and sometimes perspective taking influences judgments directly (e.g. Skorinko *et al.*, 2014), perspective taking effects could be complex, indirect (Caruso *et al.*, 2006; Lucas *et al.*, 2016) and action-specific (Kulibert and Thompson, 2019). Hence, the effects of perspective taking on judgments of financial practices could not be inferred from previous research. Therefore, in this paper, we tested the following hypotheses:

Hypothesis H1. People, who take the perspective of those who can benefit from the use of an ethically-questionable financial practice, judge it to be more ethical than people, who take the perspective of those who can incur losses due to it.

Hypothesis H2. People, who take the perspective of those who can benefit from the use of an ethically-questionable financial practice, judge it to be more legal than people, who take the perspective of those who can incur losses due to it.

Hypothesis H3. People, who judge an ethically-questionable financial practice from the perspective of those who can benefit from it, have greater intentions to use it in the future than people, who judge it from the perspective of those who can incur losses due to it.

3. Method

Experiments have been often used in behavioral finance (Fiksenbaum *et al.*, 2017). Hence, to test hypotheses H1-H3, we conducted an experiment. Our experiment had two conditions: a loss perspective condition and a gain perspective condition. Following calls to explore ethics-related phenomena using qualitative methods in addition to quantitative methods (Brand, 2009; Crane, 1999), we analyzed participants investment intentions using statistical methods and content analysis.

3.1. Participants

We recruited 200 USA-based participants through Amazon Mechanical Turk (100 participants for each condition). Research has shown that Amazon Mechanical Turk samples provide valid results (Buhrmester *et al.*, 2011; Kees *et al.*, 2017). In the loss perspective condition, 93 participants, including 36 women (age mean: 37.67 years, std. dev.: 11.06), submitted usable questionnaires. In the gain perspective condition, 98 participants, including 29 women (age mean: 34.86 years, std. dev.: 10.35), submitted usable questionnaires. Thus, the answers of a total of 191 participants were included in the analysis. In each condition, most participants described their culture as Western (>

80 participants). The minority described their culture as Asian or other. Participants had diverse educational backgrounds. The highest educational level that most participants had achieved in each condition was an undergraduate degree. Fewer participants had graduated from high school or had a post-graduate degree. Participants' occupations were diverse, too, including, e.g., a software developer, a courier, a driver, a dental assistant, and a retail manager.

3.2. Design and procedure

The study had a between-participant experimental design. The independent variable was participants' perspective (gain perspective / loss perspective). The dependent variables were participants' ethics judgments, legality judgments, investment intention judgments and their support for the regulation of ethically-questionable practices.

3.2.1. *Experimental manipulation*

We manipulated participants' perspectives through the cases that we presented them with. Each participant was presented with three cases of morally-questionable financial actions, including two cases of predatory trading and one case of front running. In all cases, the fund manager or the fund manager's client could profit from the use of a practice, and the other party could lose from it. We manipulated participants' perspectives by asking them to assume that they were either the person who could benefit from the action (gain perspective condition) or lose money (loss perspective condition). The cases we used were based on those of Sobolev and Clunie (2021). However, we reformulated them to fit the purpose of the experiment. For example, one of the presented predatory trading cases was described in the [prey] {predator's beneficiary} conditions as follows:

> [Assume that you work as a short-seller at a financial services firm. Assume further that a fund manager, who works at a different firm, plans an investment.] {Assume that your fund manager invests your money.} He thinks that the stocks of company C are sold for a lower price than they are worth. [He has noticed that short sellers (including you) had made large

bets against the stocks of company C. These investments would profit you if the price of the stocks decreases.] {He has noticed that short-sellers had made large bets against the stocks of company C, that would profit them if the price of the stocks decreases.}

[The] {Your} fund manager considers buying the stocks of company C, expecting the price to increase up to the stocks' real value. As he would buy the stocks at a price which is low, he would be able to [make profits] {make for you profits} if the price increases afterwards. However, he knows that this action would make [you and your clients lose money] {the short-sellers and their clients lose money}.

Assume that [the] {your} fund manager assessed the true value of the company using a method that he had learnt at the university, and that his analysis involved a certain level of uncertainty. Sources of information about the stock and the short-sellers [(including your investments)] were publicly available.

3.2.2. Measures

We used the measures employed by Sobolev and Clunie (2021). Thus, ethics judgments were measured using the item 'please rate the extent to which you think that the action that the fund manager considers is ethical' on the scale ranging between 'strongly believe that it is not ethical' (1) and 'strongly believe that it is ethical' (7). Legality judgments were measured using the item 'please rate the extent to which you are confident that the action that the fund manager considers is legal' on the scale ranging between 'very confident that it is illegal' (1) and 'very confident that it is legal' (7). We assessed participants' investment intentions through the item 'please rate the extent to which you would like to let this fund manager invest your money in real-life' on the reversed scale 'you would like very much to let this fund manager invest your money' (1) to 'you would not like at all to let this fund manager invest your money' (7).[1] In addition, we asked the participants to explain the reasons for their judgments.

As a behavioural measure for participants' support of the regulation of financial practices, we asked them to sign a petition, requesting the US governmental market regulation agency (the SEC) to set regulations, that forbid actions of the types described in the cases. Participants could answer either "yes, I would like to sign the petition" (1) or "no, I would not like to sign the petition" (2). To increase the validity of the request, we requested the participants to sign the petition after thanking them for their participation. However, once participants made their decision, we thanked them again and explained that the petition request was a part of the study, emphasizing that they would not be signing any petition here.

3.2.3. *Additional questions*

To assess the extent to which participants considered the given cases realistic, we asked them also to judge the likelihood that fund managers would behave in real life as in the given cases. Action likelihood was assessed using the item 'please rate the extent to which you consider it likely that a fund manager would act in a similar real-life situation as described in this scenario' on the scale ranging between 'extremely unlikely (0%)' (1) and 'extremely likely (100%)' (7).

To obtain information about the nature of the sample, we asked participants to provide their demographic details, including their age, gender, culture, and the highest educational level that they achieved. However, these details were not used in the analysis.

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[1] Research methods studies have established that single-item measures are reliable and valid (Bergkvist and Rossiter, 2018; Nagy, 2002). Ethics studies have used single-item measures (e.g. Nicklin *et al.*, 2011).

4. Results

Descriptive statistics of the main variables are presented in Tables I and II.

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Insert Table I about here

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Insert Table II about here

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4.1. Hypothesis Testing

To test hypothesis H1 (people, who take the perspective of those who can benefit from the use of an ethically-questionable financial practice, judge it to be more ethical than people, who take the perspective of those who can incur losses due to it), we conducted a repeated measures ANOVA on all participants' ethics judgments in the loss and gain perspective conditions. We used perspective (loss / gain) and case (1-3) as independent variables. The results revealed that perspectives significantly affected ethics judgments ($F (1, 92) = 6.23$, $p = 0.01$, partial $\eta^2 = 0.06$, observed power = 0.70). (Case had a significant effect on ethics judgments, too: $F (2, 184) = 20.78$, $p < 0.001$, partial $\eta^2 = 0.18$, observed power = 1.00). A t-test, conducted over all participants' ethics judgments in all conditions and cases, confirmed that in the gain perspective condition, participants judged the action to be more ethical (mean: 5.16, std. dev.: 1.89) than in the loss perspective condition (mean: 4.73, std. dev.: 1.99; $t (571) = 2.69$, $p = 0.007$). Thus, the results supported hypothesis H1.

We tested hypothesis H2 (people, who take the perspective of those who can benefit from the use of an ethically-questionable financial practice, judge it to be more legal than people, who take the perspective of those who can incur losses due to it) by a repeated measures ANOVA on participants' legality judgments over all conditions and cases. We used the same independent variables as before. The results revealed that overall, perspective did not significantly affect legality judgments, although it had a near significant effect ($F(1, 92) = 3.75$, $p = 0.056$, partial $\eta^2 = 0.04$, observed power = 0.48). (Case had a significant effect on legality judgments: $F(2, 184) = 40.41$, $p < 0.001$, partial $\eta^2 = 0.31$, observed power = 1.00). However, a t-test, conducted over all participants' legality judgments of the first case, revealed that people in the gain perspective condition judged the action to be significantly more legal (mean: 4.72, std. dev.: 1.69) than people in the loss perspective condition (mean: 4.20, std. dev.: 1.82; $t(189) = 2.05$, $p = 0.04$). Additional t-tests shows that in the loss perspective condition, participants' ethics and legality judgments of the first case were insignificantly different from the scale midpoint (4), whereas in the gain perspective condition, they were significantly different from the scale midpoint (see Table I). Thus, the results provided partial evidence supporting H2. However, they suggested that people's legality judgments are affected by perspectives when uncertainty about the legality and ethicality of the action is high.

To test hypothesis H3 (people, who judge an ethically-questionable financial practice from the perspective of those who can benefit from it, have greater intentions to use it in the future than people, who judge it from the perspective of those who can incur losses due to it), we conducted a repeated measures ANOVA on participants' investment intentions over all conditions and cases. We used the same independent variables as before. The ANOVA showed that perspective significantly affected investment intention judgments ($F(1, 92) = 6.55$, $p = 0.01$, partial $\eta^2 = 0.07$, observed power = 0.72). (Case significantly affected investment intention, too: $F(2, 184) = 8.77$, $p < 0.001$, partial $\eta^2 = 0.09$, observed power = 0.97). A t-test, conducted over all participants' investment intentions in all conditions and cases, showed that people in the gain perspective condition wanted to let the fund manager invest their money (mean: 3.45, std. dev.: 2.00) more than people in the loss perspective condition (mean: 3.97, std. dev.: 2.06; $t(571) = 3.08$, $p = 0.002$; notice that lower ratings indicated stronger intentions to let the fund manager invest the money). Thus, the results supported hypothesis H3.

4.2. Additional analysis

4.2.1. Ethics judgment, legality judgments and investment intentions

T-tests showed that apart from the first case in the loss perspective condition, in all other cases and conditions, people's ethics and legality judgments were significantly greater than the scale midpoint (4; see Table I). These results indicate that most participants considered the described practices to be ethical and legal. Considering all cases, 25.48% of all participants' ethics judgments were less than the midpoint (4). However, t-tests showed that participants' investment intentions were insignificantly different from the midpoint value (4; 'do not know') only for cases 2 and 3 in the gain perspective condition (see Table II).

4.2.2. *Financial regulation and investment likelihood*

In the loss perspective condition, 35 participants (35/93 = 37.63%) agreed to sign a petition, that asked the government to act towards the regulation of predatory trading. In the gain perspective condition, 29 participants (29/98 = 29.59%) agreed to sign it. Participants' regulation support had small but significant correlations with their investment intentions ($r = -0.08$, $p = 0.048$). Methodologically, it shows that participants' investment intentions were related to a behavioral measure.

4.2.3. Action likelihood

As Table II shows, in all cases and conditions, participants judged the likelihood that a fund manager would behave as described in the cases to be high (action likelihood means were between 5.20 and 5.85, and t-tests showed than all these values were significantly greater than the scale midpoint 4). These results suggested that participants considered the examined actions realistic.

4.2.4. Qualitative analysis of investment intention justifications

Complementary content analysis of participants' justifications of their investment intentions is given in the appendix. It shows that in addition to perspectives, people's ethics and legality considerations, financial considerations, and attitudes towards the fund managers affect their investment intentions.

5. General discussion

People are rarely impartial about their money. Extending research on judgments of financial practices (Terpstra *et al.*, 1993; Statman, 2009) to situational determinants, this study establishes that when people take the perspective of those who can profit from the use of a financial practice, they judge it to be more ethical than when they can lose from it. Thus, it shows that ethics judgments of financial practices can be influenced by the profitability of the practice and emphasizes their relative nature. This study also shows that people often judge predatory trading and front running scenarios to be ethical.

Going beyond the results of a study, investigating the effects of objective, legal criteria on people's legality judgments (Sobolev and Clunie, 2021), our results show that perspective taking could affect people's legality judgments. However, it reveals that such effects are weaker than the effects of perspective on ethics judgments and that they depend on the specific details of the judged behavior.

Contributing to the literature about financial behavioral intentions (Sobolev and Clunie, 2021), our analysis shows that apart from ethics and legality judgments, people's perspectives affect their investment intentions. In agreement with previous research (e.g. Gennaioli *et al*., 2015), our analysis shows that profitability considerations and trust can affect people's investment intentions, too. However, we establish that people's profit estimates and the extent to which they trust fund managers are highly diverse.

5.1. Applications

5.1.1. *Applications for financial firms and regulators*

Many large banks have formulated codes of conduct, which detail their central values and practitioner behavioral guidelines. These codes are often based on values which investors consider important (Riedl and Smeets, 2017). However, they often refer to stakeholder groups that have different interests. For instance, the code of conduct of Morgan Stanley specifies that employees should "think like an owner to create long-term shareholder value", "always keep the client's best interest", and "invest in the future of our communities and our firm" (Morgan Stanley, 2016, p. 10). Whereas all these values are commendable, our results suggest that actions taken to support one stakeholder group (e.g. the clients) may be judged negatively by the other stakeholder groups (e.g. the communities). Hence, guidelines of this type may be perceived as contradictory and impossible to implement.

This paper suggests that to provide helpful codes of conduct, financial firms should clarify their priorities with regard to their stakeholders. However, as there is no societal value ranking system (MacIntyre, 2007), such a task is expected to be extremely difficult. Hence, we suggest that it could be beneficial if regulators would provide advice on this task.

5.1.2. *Educational applications*

Research on business ethics education has raised concerns about organizations' (Parks-Leduc *et al.*, 2021) and business students' (Shank, 2018) ethicality. To address this issue, it has investigated the effectiveness of a large number of educational methods, ranging between the use of positive and negative role models (Baden, 2014) and engagement in international programs, which involve work with organizations and entrepreneurs in developing countries (Pless *et al.*, 2011). Research has also suggested incorporating case studies and novels (Michaelson, 2016) into business ethics education programs, as well as pointing out the interconnectedness between people and their outcomes (Giacalone and Promislo, 2013).

Our results show that many people judge predatory trading and front running to be ethical and express positive attitudes towards investments which involve these practices. These practices are perceived as unethical by regulators, as evidenced by their regulation efforts (Johnson, 2021). However, our results show also that the tendency to judge these practices as ethical decreases when people take the perspective of those who can incur losses due to the use of these practices. Thus, they suggest that incorporating perspective taking in financial ethical education programs could increase people's sensitivity to ethics.

5.1.3. *Applications for Financial modelling*

A large body of finance research has focused on the development of investor portfolio models. In these models, agents are often assumed to maximize their utility function. In particular, in a classical and influential study (Gennaioli *et al*., 2015), the utility function depended on costs, reflecting the fees that agents paid to their money managers. Trustworthy managers could charge greater fees, and trust was a parameter, capturing the risk that investors agreed to bear in order to increase their returns. Whereas this model contributed important insights into investors behavior, our content analysis (see the appendix) suggests that beyond financial considerations, people's investment intentions depend on the ethicality and legality of the practices that the fund managers use. Thus, our results provide finance research with insights, which can be used to develop new financial models.

5.2. Limitations and future research

This study contributes to the literature on judgments of financial practices. However, it raises questions for future research, which we consider important. First, in this study we investigated the effects of lay people's perception by asking them to assume one of two partial perspectives. However, philosophers have suggested that judgments should be made from an impartial perspective (Rawls, 1958). Can people be impartial when it comes to money? We hypothesize that asking people to assume an impartial position would result in intermediate ethics judgments compared to the ethics judgments obtained in this study. Future research could test this hypothesis and go beyond it by exploring biases in people's judgments in this condition.

Second, in our experiment, participants were asked to make their judgments as individuals. However, research has shown that people's decisions are influenced by others. For instance, they take greater risks when they are exposed to the behavior of leading investors (Wuthisatian et al., 2017). Because people often make decisions in groups, we consider it important to examine how perspective taking affects groups' ethics judgments of financial practices.

Third, our results showed that the effects of perspective taking on legality judgments of financial practices depended on the nature of the judge practices. In particular, perspective taking affected legality judgments when people experienced high uncertainty about the ethicality and the legality of the examined practice, and did not yield significant effects otherwise. This finding raises the question whether uncertainty about legality and ethics are necessary conditions for perspective to influence legality judgments. We hypothesize that this is indeed the case.

Fourth, the results of our content analysis (see the appendix) suggest that the use of ethically-questionable trading techniques could be interpreted by lay people as a cue, signaling to potential investors that they may not be able to trust the practitioners who use them and hence should avoid using their services. Future studies could examine this conjecture.

Finally, a large body of research has highlighted that fund managers' fees, as well as other agency costs, vary greatly (Jensen and Meckling, 1976; Johan and Najar, 2010). As our results suggest that the prospect of obtaining profits can impact lay people's ethics judgments and behavioral intentions, we conjecture that fund managers' fees could influence their ethical conduct, too. However, our study focused on lay people's judgments. Studies, testing the validity of this hypothesis for fund managers, could have important social implications.

6. Conclusion

Research has demonstrated that there can be conflicts between the ethicality and profitability of business practices (Barraquier, 2011). Here, we establish that if such conflicts occur, the profitability of the practice could sway lay people's ethics judgments, investment intentions, and sometimes also legality judgments in the direction of the profit. Our results have applications for financial firms, educators, and finance researchers.

Appendix: Qualitative analysis of investment intention justifications

We conducted contents analysis (Corbin and Strauss, 2008; Gioia *et al.*, 2013) to explore how participants justified their investment intentions. Thus, we formulated concepts, describing participants' ideas; grouped the concepts into frequently appearing themes; and classified the themes according to the justifications to which they were related.

Our content analysis led to the identification of three classes of themes and concepts: justifications of participants who had positive investment intentions (wanted to let fund managers, using the examined practices, invest their money); justifications of participants who had neutral investment intentions (were unsure about their investment intentions); and justifications of participants who had negative investment intentions (did not want to let the described fund managers invest their money). The themes and concepts corresponding to each intention class are summarized in Figure 1.

Insert Figure 1 about here

The content analysis revealed that three themes appeared in participants' justifications, independently of their investment intention class. These themes were: ethics and legality considerations, financial considerations, and attitudes towards the fund managers. However, the specific justifications given for the positive, neutral, and negative investment intentions varied greatly. Below, we describe participants' justification concepts, related to each of these themes and investment intentions.

Justifications of positive investment intentions. When participants wanted to let the fund manager invest their money, and justified their intentions using ethics and legality reasons, they often judged the manager's actions to be ethical or legal. For instance, justifying high investment intention (1), one of the participants wrote:

> "Seems like someone [is] doing his job ethically and making his clients' money."

However, participants referring to ethics or legality considerations expressed sometimes the will to invest even if their perceived the action to be unethical or illegal, as long as the investment was profitable. For instance, one of the participants, who rated his investment intention as 2, wrote:

> "While it's slightly unethical, my goal is to make a profit so I would likely allow my fund manager to go ahead with this."

Participants used also a large number of financial considerations to justify their intentions. In particular, they expressed the will to obtain profits and avoid risks. For instance, a participant, who expressed high investment intentions (1) wrote:

> "It's […] a safe purchase that will return some amount of money in profit."

To justify positive investment intentions, participants often expressed positive attitudes towards the fund manager. In particular, they expressed trust and appreciation of the manager's education, skills or intelligence. Hence, one of the participants wrote:

> "I would trust the manager to invest my money for me" (2).

Other participants wrote:

> “He is using a method studied in college and it sounds like he's smart” (1)

> and

> “This fund manager does proper research” (1).

Additional exemplifying quotations of positive investment intention justifications are presented in Table III.

Insert Table III about here

Justifications of neutral investment intentions. When participants were unsure whether they wanted to let the fund manager invest their money or not, they expressed uncertainty about the legality of the manager’s actions. For instance, a participant, who used the scale midpoint (4) to rate her investment intention, wrote:

> “I don't know if it's legal or not.”

Few participants justified their answers by referring directly to the investments’ profitability or risk. However, many expressed uncertainties about the fund manager or about the extent to which he could be trusted. For example, participants who were not sure whether or not they wanted to let the fund manager invest their money (rating their investment intention as 4) wrote:

> “I would probably need to see his past performances with these types of trades as it seems a bit risky for me, but I'm not sure whether or not I'd let him invest my money” and

> “I'd need to know more about him.”

Table IV displays additional examples of quotations, justifying neutral investment intention.

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Insert Table IV about here

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Justifications of negative investment intentions. When participants did not want to let the fund manager invest their money, they often judged him or his actions to be unethical. Thus, participants who chose the option "you would not like at all to let this fund manager invest your money" (7) wrote, for example

"[He] does not seem to care if people lose money as long as he makes some"

and

"They're unethical and will probably go to jail".

Participants often explained that they did not want to let the fund manager invest their money because they were afraid of the negative implications of involvement in possibly illegal or unethical actions. For instance, two of the participants who rated their investment intention as 6 and 7 (respectively) wrote

"I don't want to get caught up in insider trading and have to do time"

and

"This seems to be skirting on what is legal and it seems that the manager is open to [compromising] ethics which could get me in trouble too."

Similarly, a proportion of participants did not want to be involved in unethical or illegal acts. For example, one of the participants wrote:

"I feel like it would make me feel guilty to let this manager invest my money."

However, a proportion of the participants expressed discomfort about the risk of losing money or investing money in general. For instance, a participant wrote

"If there is a problem, I may lose money"

to justify his negative investment intention (7).

Finally, other participants expressed lack of trust towards the fund manager; for instance, two participants justified the answer '7' by

"They are untrustworthy and are only concerned about their own bottom line"

and

"I don't want this person to have access to my money because they will try to scam me."

These justifications suggest that people use fund managers' engagement in ethically-questionable behavior as a cue for the extent to which they can trust them. Table V presents additional examples of negative investment intention justifications.

Insert Table V about here

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Table I. Means (and standard deviations) of participants' legality and ethics judgments and the results of t-tests comparing these judgments to the scale midpoint (4). The ethics judgment scale ranged between 1 ('strongly believe that it is not ethical') and 7 ('strongly believe that it is ethical'). The legality judgment scale ranged between 1 ('very confident that it is illegal') and 7 ('very confident that it is legal'). The analysis was based on the answers of 93 participants in the loss perspective condition and 98 participants in the gain perspective condition.

Notations: * p < 0.05, ** p < 0.01, *** p < 0.001, NS: not statistically significant.

Condition	Case	Legality judgment	T-test comparing legality judgments to the scale midpoint 4	Ethics judgment	T-test comparing ethics judgments to the scale midpoint 4
Loss	1 (predatory trading)	4.20 (1.82)	t (92) = 1.09, NS	3.95 (2.07)	t (92) = 0.2, NS
	2 (front running)	5.46 (1.79)	t (92) = 7.87***	5.26 (1.80)	t (92) = 6.74***
	3 (predatory trading)	5.83 (1.36)	t (92) = 12.92***	4.97 (1.86)	t (92) = 5.01***
Gain	1 (predatory trading)	4.72 (1.69)	t (97) = 4.24***	4.96 (1.85)	t (97) = 3.17**
	2 (front running)	5.85 (1.56)	t (97) = 11.70***	5.65 (1.74)	t (97) = 9.40***
	3 (predatory trading)	5.77 (1.57)	t (97) = 11.17***	5.25 (1.94)	t (97) = 6.34***

Table II. Means (and standard deviations) of participants' investment intentions and action likelihood judgments, and the results of t-tests comparing these judgments to the scale midpoint (4). The investment intention scale ranged between 1 ('you would like very much to let this fund manager invest your money') and 7 ('you would not like at all to let this fund manager invest your money'; this scale was reversed). The action likelihood judgment scale ranged between 1 ('extremely unlikely (0%)') and 7 ('extremely likely (100%)'). The analysis was based on the answers of 93 participants in the loss perspective condition and 98 participants in the gain perspective condition. Notations: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$, NS: not statistically significant.

Condition	Case	Investment intentions	T-test comparing action likelihood judgments to the scale midpoint 4	Action likelihood	T-test comparing action likelihood judgments to the scale midpoint 4
Loss	1 (predatory trading)	4.32 (1.87)	t (92) = 1.67, NS	5.20 (1.53)	t (92) = 7.60***
	2 (front running)	3.67 (2.07)	t (92) = 1.56, NS	5.61 (1.59)	t (92) = 9.79***
	3 (predatory trading)	3.91 (2.20)	t (92) = 0.38, NS	5.37 (1.54)	t (92) = 8.53***
Gain	1 (predatory trading)	3.78 (1.86)	t (97) = 1.19, NS	5.40 (1.33)	t (97) = 10.53***
	2 (front running)	3.04 (2.01)	t (97) = 4.71***	5.85 (1.50)	t (97) = 12.35***
	3 (predatory trading)	3.52 (2.07)	t (97) = 2.30*	5.53 (1.38)	t (97) = 11.25***

Table III. Themes, concepts, and quotations exemplifying justifications of positive investment intentions. Participants' ratings of their investment intentions are given in brackets. The investment intention scale ranged between 1 ('you would like very much to let this fund manager invest your money') and 7 ('you would not like at all to let this fund manager invest your money').

Themes	Concepts	Exemplifying quotations
Ethics and legality considerations	Positive judgments of the ethicality or legality of the action or the manager	"This fund manager seems ethical and smart." (2) "They are making me money and its legit." (2)
	The will to be involved in unethical actions as long as they are legal or profitable	"As long as it isn't illegal I'm okay with doing something slightly unethical." (3)
	The will to be involved in illegal acts as long as they are profitable	"A fund manager with insider information will make me lots of money." (2)
Financial considerations	The investment is profitable	"It seems like a profitable investment and a quick and nearly sure way to profit." (1) "I want my fund manager to maximize profit on my behalf." (1) "I gain, so no issues." (2)
	The investment involves low risk	"There doesn't appear to be much risk." (2) "I will definitely allow the fund manager to invest it because I know it is all about risk." (2)
Positive attitudes towards the	Trust	"If they did their own research about a company like this and came to that conclusion, I would trust them more than I would trust

fund manager		myself with the decision." (1) "Simply a matter of trust." (2)
	Appreciation of the fund manager's education, skills and intelligence	"He is using his education and probably is pretty savvy financially." (1) "He knows what he's doing." (1) "I would appreciate my broker studying the market and finding opportunities like this." (2)

Table IV. Themes, concepts, and quotations exemplifying justifications of neutral investment intentions. Participants' ratings of their investment intentions are given in brackets. The investment intention scale ranged between 1 ('you would like very much to let this fund manager invest your money') and 7 ('you would not like at all to let this fund manager invest your money').

Themes	Concepts	Exemplifying quotations
Ethics and legality considerations	Uncertainty about the legality of the action	"I would want to know [if] it's legal to do so." (4) "I am not certain of the legality to provide a sufficient yes or no." (4)
Financial considerations	Uncertainty about the profit	"It's hard to say whether this investment would be successful." (4)
	The investment involves risk	"This gamble seems closer to 50/50." (4)
Unclear attitudes towards the fund manager	Uncertainty about the trustworthiness of the fund manager	"I'm not sure about trusting [in] this situation." (4) "I don't know if I trust anyone else with my money." (4)
	Uncertainty about the fund manager	"It would be hard to make a decision based solely on this information. What is the outcome? Does he buy the stock? How is his fund performing?" (4) "I would want to do more research and make sure this manager is making the best choices for their clients, while remaining within the law." (4) "I'd like to know the manager's track record." (4)

Table V. Themes, concepts, and quotations exemplifying justifications of negative investment intentions. Participants' investment intentions are given in brackets. The investment intention scale ranged between 1 ('you would like very much to let this fund manager invest your money') and 7 ('you would not like at all to let this fund manager invest your money').

Themes	Concepts	Exemplifying quotations
Ethics and legality considerations	Negative ethics or legality judgments of the fund manager or his actions	"The fund manager is an unethical guy. I wouldn't pay him to handle my finances." (5) "He will create a problem [for] some others." (7) "I wouldn't trust this person with my money because they are dishonest, even if in this scenario it would have benefitted me." (7)
	Fear of the negative implications of involvement in possibly illegal or unethical actions	"I am scared I might be held liable too when he is arrested for fraud." (5) "He seems dishonest and it could backfire in other ways eventually." (6) "I don't want to be in trouble with the law." (7)
	The will to avoid participation in unethical or illegal actions	"I do not like to use my money in morally dubious ventures." (5) "I couldn't get behind doing something I didn't feel was morally ok." (6) "I wouldn't want to be a part of any unethical behavior." (7)
Financial considerations	Discomfort with the risk of losing money or investments	"Doesn't seem like a surefire investment." (5) "There is too much uncertainty, I'm not comfortable with it." (7)
Negative attitudes	Lack of trust	"I would rather avoid this type [of] manager, I would not trust them to do the right things for m[e] and my investments." (6)

towards the	"This fund manager does not have my best interest at heart". (7)
fund manager	"The person seems untrustworthy." (7)

Figure 1. Justifications of investment intention: Themes and concepts

Investment intention	Justification themes	Justification concepts
Participants would like to let the fund manager invest their money	Ethics and legality considerations	• Positive judgments of the ethicality or legality of the action or the manager • The will to be involved in unethical actions as long as they are legal or profitable • The will to be involved in illegal acts as long as they are profitable
	Financial considerations	• The investment is profitable • The investment involves low risk
	Positive attitudes towards the fund manager	• Trust • Appreciation of the fund manager's education, skills and intelligence
Participants are unsure whether they would like to let the fund manager invest their money	Ethics and legality considerations	• Uncertainty about the legality of the action
	Financial considerations	• Uncertainty about the profit • The investment involves risk
	Unclear attitudes towards the fund manager	• Uncertainty about the trustworthiness of the fund manager • Uncertainty about the fund manager
Participants would not like to let the fund manager invest their money	Ethics and legality considerations	• Negative ethics or legality judgments of the fund manager or his actions • Fear of the negative implications of involvement in possibly illegal or unethical actions • The will to avoid participation in unethical or illegal actions
	Financial considerations	• Discomfort with the risk of losing money or investments
	Negative attitudes towards the fund manager	• Lack of trust