

# Corporate Actions as Moral Issues

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November 17, 2023

## Abstract

We study how a representative sample of the U.S. population evaluates the morality of a broad range of corporate actions. The corporate actions we consider include decisions recently emphasized in relation to environmental, social, and governance (ESG) concerns, as well as other classic textbook decisions related to maximizing firm value. Our core findings are that: (i) all corporate actions we consider are perceived to be not just financial but also moral issues; (ii) many classic finance textbook issues, such as CEO pay, value-enhancing layoffs, wage reductions, legal corporate tax avoidance, and outsourcing decisions, are perceived to be significantly more of a moral issue than the ESG components emphasized in current executive pay contracts (e.g., renewable energy usage and workforce diversity); (iii) participants trade off moral concerns against monetary costs; (iv) shareholders have a greater willingness to pay for morally desirable corporate actions than customers or employees. Although we observe significant and plausible heterogeneity across participants in the *absolute* importance given to moral considerations, the *relative* ranking of the morality of different corporate actions is surprisingly stable across participants. Our results have broad implications for theoretical and empirical work in financial economics, as well as for finance practitioners.

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# 1 Introduction

The growing emphasis on environmental, social, and governance (ESG) issues and stakeholders other than shareholders has fundamentally impacted financial markets, companies, and research in finance. An important body of new evidence suggests that (i) many investors derive non-pecuniary utility from the ESG attributes of a firm; (ii) moral considerations are a prominent source of non-pecuniary utility, and (iii) many investors are willing to forego financial return for more favorable ESG attributes (we discuss the related literature below). At the same time, as recently argued by Starks (2023) in her AFA Presidential Address, while it is becoming clear that investors care about both *value* and *values*, many first-order questions on the relation between the two remain unanswered to date, with implications for theoretical and empirical work in financial economics, as well as for finance practitioners.

From a corporate finance perspective, a core problem for corporate managers who aspire to take optimal decisions on behalf of shareholders and/or other stakeholders, is that our current understanding about which corporate actions generate non-pecuniary utility (i.e., values), and how those concerns rank relative to financial motives (i.e., value), is very limited. While existing theoretical models remain largely agnostic, e.g., by distinguishing between “green” and “brown” firms, or by including generic “tastes” for ESG attributes, the empirical literature often focuses on a specific set of prominent ESG issues such as climate risks, CO2 emissions, or workforce diversity. However, despite important and valuable work on these selected issues, there is currently little systematic evidence that cuts across, and compares a broader range of corporate actions. The problem for managers is compounded by the fact that both the meaning of the term ESG, as well as its empirical measurement, are subject to substantial ambiguity and disagreement (e.g., Berg, Kölbel, and Rigobon (2022)). As most corporate actions can be interpreted as relating to ESG, the question for corporate managers is not so much whether an issue is or is not an ESG issue, but which actions are more likely to affect non-pecuniary utility of shareholders, employees, and customers. Moreover, it has largely remained an open question which types of stakeholders care more about, and are willing to give up a greater monetary value for, the moral aspects of corporate actions.

In this paper, we propose to make progress by assessing how a representative sample of the U.S. population perceives the morality of a set of important corporate actions that managers routinely take in their companies and that finance professors routinely cover in their teaching and research.<sup>1</sup> The corporate actions we study include “classic” corporate

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<sup>1</sup>Let us briefly comment on the terminology we use in our paper. As is well known, consensus on a rigorous scientific definition of the term “morality” remains elusive (e.g., Gert and Gert (2020)). The

finance decisions, which are captured by ESG ratings to varying degrees, as well as more novel issues studied in academic work on ESG: renewable energy usage and workforce diversity. The latter two issues are also among the ESG components currently emphasized in executive compensation packages, if executives are compensated based on ESG performance at all (see Bebchuk and Tallarita (2022)).<sup>2</sup> We then explore to what extent these corporate actions could generate non-pecuniary utility by asking participants whether, and to what extent, they perceive them to be moral issues.<sup>3</sup> Our approach allows us to evaluate the relative ranking of these issues on a scale of moral attractiveness, to elicit how survey participants rank moral considerations vis-à-vis financial considerations, and to identify and measure trade-offs between morality and the personal costs of implementing a morally desirable action. We are also able to study heterogeneity in the moral views of participants along socio-economic dimensions, as well as across randomly assigned shareholder and stakeholder status. To the best of our knowledge, this is one of the first systematic studies of the moral preferences of economic agents over a broad range of corporate actions that goes beyond narrowly defined ESG issues.

We derive our results using a new survey conducted among 3,000 participants. Our core findings are that: (i) all corporate actions we consider are perceived to be not just financial but also moral issues; (ii) classic finance textbook issues, such as CEO pay, value-enhancing layoffs, wage reductions, legal corporate tax avoidance, outsourcing decisions, and financial leverage are perceived to be significantly more of a moral issue than ESG issues emphasized in current executive pay contracts (renewable energy usage and workforce diversity); (iii) participants trade off moral concerns against monetary costs; (iv) shareholders have a greater willingness to pay for morally desirable corporate actions than customers or employees. The last result is obtained by randomly assigning participants to a stakeholder treatment group (shareholder, customer, or employee) and can thus be interpreted as causal.

Our data allow us to observe significant heterogeneity across participants in the absolute importance given to moral considerations. Older, white, Democrat, and female survey participants are significantly more likely to view the average corporate action as a moral

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pragmatic approach in this paper is to define as (im)moral decisions what our survey respondents tell us they feel is (im)moral. Our approach is thus consistent with the notion of morality that descriptively refers to “certain codes of conduct put forward by a society or a group as moral” (Gert and Gert (2020)).

<sup>2</sup>To be more precise, what is emphasised in executive pay packages are environmental performance measures, more broadly, of which renewable energy usage is one example.

<sup>3</sup>While we believe that personal convictions, norms, and values (which we all subsume here under the terms “morality” or “moral perceptions”) are core sources of non-pecuniary utility (as in: “I want the firm to reduce its carbon footprint, because I believe we all have a duty to save the planet”), there may be other sources as well (e.g., benefits due to virtue signalling). We focus here on the impact of moral perceptions and leave studying other sources of non-pecuniary utility to future work.

issue, they are more likely to view the corporate decisions we present to them as morally wrong, and they are more likely to say that a the average corporate decision should be evaluated as a moral issue, rather than purely as a financial issue. The pattern for Democrats vs. Republicans is consistent with stronger moral universalism among Democratic voters (Enke (forthcoming)). Finally, we show that participants with an economics or business degree, as well as high-income individuals, have a similar evaluation of the morality of various corporate actions but differ substantially in how much weight they think corporations should place on moral as opposed to financial considerations. As high-income individuals and individuals with economics and business related degrees are more likely to actually determine corporate policies, this finding exposes a potential for tension in society that may contribute to the distrust in elites observed in many countries: corporate decisions may be taken in good faith by corporate decision makers, who place less weight on moral relative to financial concerns, but those decisions may be perceived as amoral by the broader public.

Despite observing significant and plausible heterogeneity across participants in the *absolute* importance given to moral considerations, we show that the *relative* ranking of the moral appeal of different corporate actions is surprisingly stable across participants. This suggests that corporations may be able to systematically prioritize which set of corporate actions to focus on when their goal is to cater to investors' non-pecuniary utility, even when their shareholder base is heterogeneous.

Our results have important implications for both academic research and practitioners. For finance research, our findings that stakeholders view many classic value-enhancing corporate finance decisions as moral issues, and are willing to forego pecuniary for non-pecuniary utility, raise profound questions about modelling financial decision making. Our findings are consistent with, and provide empirical support for the argument that ESG is "both, extremely important and nothing special" (Edmans (2023)). Our results also raise questions about optimal executive compensation, as many of the corporate issues that survey participants care about most, from a moral perspective, are not issues executives are incentivized to care about via their executive compensation packages. To the contrary, by construction of our scenarios, executives would have an incentive to maximize firm value at the expense of non-pecuniary utility of their stakeholders.

Many of the corporate actions we study are of major relevance for companies in practice, being featured in many leading textbooks and finance curricula around the world. However, most existing frameworks and discussions in the classroom focus strongly on financial criteria (e.g, positive net present value), and very little, if at all, on the moral dimensions of these corporate decisions. Our findings identify a significant gap between the lack of a discussion of the role of morals among finance scholars and in leading textbooks on

the one hand, and the perceptions of morality of corporate actions held by a representative sample of U.S. households, on the other hand. Finally, we hope our findings are informative for corporate managers and motivate them to think even more about the moral implications of their decisions.

## 2 Contribution to the Literature

Our paper contributes to two broad strands of the literature. First, our paper contributes to the literature that studies non-pecuniary utility as a driver of financial decisions. Theoretical work in this literature includes Pástor, Stambaugh, and Taylor (2021) and Pedersen, Fitzgibbons, and Pomorski (2021), who study portfolio choice and equilibrium asset prices; Broccardo, Hart, and Zingales (2022), who study how socially responsible investors optimally engage with firms (exit vs. voice); Hart and Zingales (2017), who study which objective function firms should maximize, and Oehmke and Opp (2020), who study how socially responsible institutional investors can impact corporate investment decisions. While both details and objectives differ, those papers have in common that they derive their new findings by virtue of including non-pecuniary utility in their respective models. And while the formulations in those papers are very general, and apply to multiple settings, all of them place some emphasis on corporate actions related to climate change. The findings in our paper raise the important question whether non-pecuniary utility attaches to corporate actions much more broadly than previously thought. If so, that would open up additional avenues for future research on what corporations should do, how they contribute to society, how and whether they should be regulated, and how corporate managers should optimally be incentivized. The moral preferences we elicit in our survey may be the underlying drivers of the non-pecuniary utility modelled in the above papers.

There is also an empirical literature in finance on how morals and values affect financial decision making. Hong and Kacperczyk (2009) argue that investors shun sin stocks because of moral concerns. Riedl and Smeets (2017) and Bauer, Ruof, Smeets, and Van Nieuwerburgh (2021) provide evidence that investors invest sustainably because of social preferences. Bonnefon, Landier, Sastry, and Thesmar (2022) show that investment decisions in a laboratory experiment are influenced by moral preferences with respect to corporate donations. Using surveys, Krueger, Sautner, and Starks (2020) find that an important non-pecuniary motivation for institutional investors to incorporate climate risk into their portfolio decisions are moral/ethical considerations. For retail investors, Giglio, Maggiori, Stroebel, Tan, Utkus, and Xu (2023) report that, among investors who consider investing in ESG stocks, almost half of them are motivated *primarily* by ethical consid-

erations. Closer to our setting, Landier and Thesmar (2022b) use a survey to provide evidence that moral preferences can lead citizens to prefer pro-social policies even if they distort competition, and that customers and employees prefer companies to offer fair trade products and to take up a humanitarian cause even if doing so is privately costly. Related, Hart, Thesmar, and Zingales (2022) exploit the Russian invasion of Ukraine to show that employees, customers and shareholders are willing to boycott companies, with moral values being an underlying driver. Finally, Colonnelli, Gormsen, and McQuade (2023) show that perceptions of the moral behavior of firms influences an individual’s policy preferences.

Our paper adds to this literature in several ways. First, complementing work that analyzes preferences for broad concepts like sustainability or industry membership, we directly elicit moral preferences over specific corporate actions. Second, our set of corporate actions is larger than the set of corporate actions studied in previous work, which has often focused on specific ESG issues (e.g., fair trade, charitable contributions, or humanitarian projects). Finally, we provide results on the relative moral importance across the corporate actions we analyze, as well as heterogeneity in moral preferences across subgroups of the population and across different types of stakeholders. In particular, we find that shareholders (a status we randomize and thus can link to causality) have a stronger willingness to pay for moral corporate actions than employees and customers, which informs the literature on the role of shareholders vis-à-vis other stakeholders for corporate behavior.

Our paper also relates to the vast literature on ESG, which partly overlaps with the literature on non-pecuniary utility discussed above. Starks (2023) represents a recent in-depth collection of the existing evidence. She concludes that, despite significant progress in studying ESG and sustainability in finance, many first-order questions remain unanswered, starting with the basic basic fact that there is “*no clear consensus on the meaning of sustainable finance or the acronyms associated with it—ESG (environmental, social, and governance), SRI (socially or sustainably responsible investing), and CSR (corporate social responsibility)*.” According to Berg, Kölbel, and Rigobon (2022), ESG rating agencies measure up to 700 subdimensions to come up with an overall ESG rating for a company. In practice, firms tend to focus on a narrower set of ESG criteria. For example, Bebchuk and Tallarita (2022) study how firms tie ESG goals to executive pay, and conclude that “*ESG metrics used in the real world are inevitably limited and narrow.*” They find that ESG metrics used in executive compensation contracts focus chiefly on employee composition and employee treatment, as well as customers and the environment. They write that “*with respect to employees ... most companies choose goals related to inclusion or diversity and many focus on work accidents and illness, but none incentivizes its CEO to increase salaries or benefits or to improve job security.*” This is relevant for our study, as some of the issues

we find stakeholders attach most moral currency to, are issues related to worker salaries and job security.

When it comes to ESG priorities by institutional investors, Matos (2020) concludes that *“the ESG issue that gets most attention from institutional investors is climate change.”* This view is in line with Starks (2023), who devotes a separate section to the large and growing literature on climate finance. In our survey below, we build on the insights from this prior work by focusing on two of the most salient E&S issues—corporate actions related to climate and workforce diversity. To limit the degrees of freedom, we take the two related corporate action scenarios with minimal adaptations directly from a recent survey by Haber, Kepler, Larcker, Seru, and Tayan (2022). In addition, as a new feature of our study, we also consider a range of corporate decisions which are (i) frequently discussed in finance textbooks and curricula in the context of firm value maximization, and (ii) outside the set of E&S issues emphasized in executive compensation contracts. Our paper also connects to the strand of the ESG literature that documents a willingness to pay for sustainability (e.g., Baker, Egan, and Sarkar (2022), Barber, Morse, and Yasuda (2019)).

Finally, our paper relates to the way in which we teach finance. For a long time, leading textbooks and classroom teaching emphasized the principle of taking positive net present value (NPV) decisions, with very little emphasis on the non-pecuniary aspects of corporate investment and financing decisions, let alone their moral properties. This has very recently started to change, and leading texts like Brealey, Myers, Allen, and Edmans (2023) have started to discuss extensions to the traditional shareholder value framework, stakeholder capitalism and responsible business. Our paper provides new evidence that individuals with economics or business training view corporate actions through the lens of financial costs and benefits, even though they do feel that these actions represent moral issues and are morally wrong to a similar degree as other survey participants. At the same time, we find that individuals with an economics degree show a greater willingness to pay for moral corporate actions, even after we control for differences in income and a host of other personal characteristics. Our work does not take a stand on whether this is good or bad, but the large gap between economists and other survey participants with respect to their moral preferences is striking and may be socially problematic. As corporations and institutional portfolios are often managed and by individuals with an economics-related degree, the corporate actions of those firms may systematically differ from what the broader population perceives to be morally adequate.

## 3 Data Sources and Sample Description

### 3.1 Survey Design

We use Qualtrics to conduct a survey among 3,000 participants representative of the adult U.S. population in terms of gender, age, race, and ethnicity, using quota sampling. The median (average) time for completion of the survey was 10 (15) minutes. In addition to a standard set of socio-demographic variables, we ask each of our survey participants about their views on 11 corporate actions, whose order is randomized. For each action, participants are presented with a statement that relates to a decision by a hypothetical firm, a supermarket chain called XYZCorp, followed by a set of questions on that decision. Our questions are designed to elicit four essential properties of how the 11 corporate actions are perceived: (i) the extent to which a given corporate action is perceived as a moral issue; (ii) the extent to which a given corporate action is perceived to be morally wrong, (iii) the relative importance corporate managers should assign to moral versus financial considerations, and (iv) the monetary value participants are willing to forego for a company to take the morally desirable action. In addition, at the beginning of the survey, each participant is randomly assigned to either a shareholder treatment, or one of two stakeholder treatments (employee, customer), which closely follows the approach in Hart, Thesmar, and Zingales (2022). We can thus analyze heterogeneity in participants' survey responses across shareholders and other stakeholders.

Our set of 11 corporate actions is motivated by feasibility (we can include only a limited set of questions in our the survey) and relevance. One set of corporate decisions we are interested in are ESG issues commonly considered in the related literature as well as by practitioners. To minimize the degrees of freedom, we take three questions from a recent survey by Haber, Kepler, Larcker, Seru, and Tayan (2022) related to the E, S, and G, components of ESG, respectively, and adapt them to our setting with minimal changes. The three ESG actions we consider include a decision by the management of XYZCorp to require suppliers to increase their renewable energy usage (E), to introduce a new hiring system to increase the gender and racial diversity of its workforce (S), and a decision by the company to appoint the current CEO also as the Chairman of the Board (G). A novel feature of our survey is that we complement these three ESG issues with a set of corporate actions that are both relevant for firms and frequently covered in finance textbooks and curricula: decisions related to capital structure and payout policy, CEO and employee compensation, corporate taxes, as well as labor cost reductions via layoffs, wage reductions, and outsourcing. All our questions are formulated to neutrally represent either facts (as in the case of the pay of XYZ's CEO, which we choose to be the same as the

actual average pay of a S&P 500 CEO in the year 2022), or business decisions which could easily be defended as value generating (i.e., positive net present value (NPV)). In Internet Appendix IA.A, we present an overview of the main survey questions as well as the specific statements associated with each corporate action. In Table IA.I in the Internet Appendix, we further illustrate how our scenarios relate to standard corporate finance principles; i.e., financial decisions which scholars often associate with value-generating decisions, but which are usually not discussed in finance under the heading of non-pecuniary utility. Internet Appendix IA.D contains the complete survey questionnaire.

In order to elicit the trade-offs participants make between “values” and “value,” we ask participants, for each question, whether they would like to see XYZCorp decide against a morally questionable decision (e.g., laying off workers), even if it was personally costly to the survey participants. To derive causal estimates, we again follow Hart, Thesmar, and Zingales (2022) by randomly assigning participants to three treatments: one in which the personal cost is zero, one in which the personal cost is \$100, and one in which the personal cost is \$500.

As is the case in many surveys and survey experiments, our survey is not incentivized. We can therefore not formally rule out that participants would overstate how much they value actions that appear morally desired to signal virtue. However, at least four arguments suggest that this is not a major concern in our study. First, our survey is anonymous. Second, monetary incentives are effective when there is a “true” answer, but less so when there is no right or wrong answer, as is the case when a researcher is interested in eliciting participants’ moral preferences (Stantcheva (2023)). Third, Stantcheva (2023) concludes that relatively few papers find large differences in the answers to incentivized and non-incentivized questions. Fourth, one of our major objects of interest is the relative comparison of people’s perceptions of different corporate actions. To the extent that participants overstate their moral preferences equally for all actions, our relative comparisons across stakeholder treatments groups and across different corporate actions are unaffected. Fifth, as we find meaningful trade-offs when hypothetical costs are introduced in our survey, pure virtue signalling can be ruled out. That said, understanding how these elasticity estimates change under different monetary and social incentives would be a fruitful avenue for future research.

## 3.2 Summary Statistics

Table 1 presents summary statistics. Panel A reports the breakdown of the demographic characteristics of our sample. Panel B reports the mean, standard deviation, and percentiles of the distribution of responses for our three main survey questions related to participants’

moral preferences ((1) “*Is this a moral issue?*”, (2) “*Is this morally wrong?*”, and (3) “*How much do you agree with the statement: ‘This is purely a financial decision. When evaluating it, morals should play no role’*”), in which respondents rate each corporate action on a scale from one to five. We also report the distribution of the share of respondents who would be in favor of taking the moral decision, with all cost scenarios pooled together.

## 4 Baseline Results

### 4.1 Corporate Actions as Moral Issues

Our first set of results relates to participants’ perception of corporate actions as moral issues. We start with a set of questions in which we ask participants to tell us whether they perceive a given corporate action as a moral issue on a five point scale, from “*Not a moral issue at all*” to “*Clearly a moral issue.*” Participants are shown the 11 corporate actions on two screens in random order to ensure readability; i.e., we present them with five issues on one screen and the remaining six issues on the next screen. By design, because participants need to complete all questions on one screen before moving on to the next screen, this set of questions is informative about the relative importance of moral considerations across these corporate actions.

Before we analyze the different actions individually below, Figure 1 presents a histogram of the responses averaged across two sets of questions. The white bars represent the responses to the questions on renewable energy (scenario S8 in the Internet Appendix) and racial and gender diversity (S6), whereas the gray bars present averages across all other issues. As a first main result, the figure shows that many participants perceive the corporate actions we present to them as moral issues. The average response across all issues is 3.45 and therefore significantly higher than not seeing these corporate actions as moral issues at all (which would have a value on our scale of 1.0), and significantly higher than the mid-point of our five-point scale of 3.0 ( $t = 31.9$ ).

A second main result is that the two of the ESG issues for which managers are most commonly compensated (Bebchuk and Tallarita (2022)), and which are often used as model cases for stakeholders’ non-pecuniary utility preferences, namely renewable energy usage and gender and racial diversity, are not perceived to be more of a moral issue than other corporate actions. To the contrary, a  $t$ -test on the difference of the sample means shows that the mean for renewable energy and diversity is significantly *lower* than the mean for the other issues (3.04 vs. 3.54, with  $t = 22.1$ ). To be clear, our point is not that renewable energy usage and workforce diversity are not perceived to be moral issues – Figure 1 shows they clearly are – but that the other corporate actions we present to

participants are perceived to be moral issues to at least the same degree, if not more. We believe this finding is both important and new to the literature.

Figure 2, Panel (a) presents results for the each corporate action individually. The figure plots the difference between the average response for a given corporate action and the mean response across all actions, normalized by the standard deviation of responses for each corporate action. Higher values on the  $x$ -axis indicate a greater belief that a given corporate action is a moral issue. The results are striking and confirm the more aggregated results from Figure 1. Rather than ranking at the top of the corporate decisions perceived to be moral issues, renewable energy and workforce diversity rank last and third to last, respectively. The corporate decisions participants perceive to be most clearly moral issues are, in that order, the level of CEO pay (scenario S7 in the Internet Appendix), layoffs (S1), wage reductions (S5), and outsourcing (S2); i.e., decisions related to compensation and labor cost savings.

## 4.2 Which Corporate Actions Are Perceived as Morally Wrong?

We also ask participants, for each corporate decision by XYZCorp, whether they feel it is “*morally wrong*,” evaluated on a five point scale ranging from “*strongly disagree*” to “*strongly agree*.” This set of questions is important because it is conceptually possible that a given corporate action is perceived as a moral issue, but, at the same time, that the action presented is perceived to be morally acceptable.

Figure 2, Panel (b) presents the results, which show that participants believe that the corporate actions we present to them are “*morally wrong*” to a substantial degree. Across all questions, the average response is 3.30, which is again substantially higher than not being morally wrong (a value of 1.0), and significantly higher than the mean of our five-point scale ( $t = 23.4$ ). This finding is remarkable, because many of the actions we consider are consistent with standard economic trade-offs between benefits and costs, which managers routinely make and which finance professors often cover in their teaching. For example, if a manager can increase shareholder value, as measured by the firm’s share price, by laying off workers (our layoff scenario S1), then this decision would be completely in line with the textbook principle that managers should make positive net present value (NPV) decisions. Yet, many of our survey participants view this decision as morally wrong. Perhaps more surprisingly, a substantial fraction of participants (45%) finds the decision to increase financial leverage consistent with static trade-off theory, in which corporate tax savings are traded off against a greater likelihood of bankruptcy in the future, to be morally wrong. Across all actions, only 26% of participants strongly disagree or disagree with the statement that the corporate actions we present to them are morally wrong, whereas 46%

either agree or strongly agree.

Figure 2, Panel (b) shows that the hypothetical decisions on CEO pay, layoffs, wage reductions, and outsourcing are perceived to be most morally wrong. Overall, the ranking of issues is very similar to that in Panel (a), where issues are ranked by the degree to which they are perceived as moral issues. By contrast, our hypothetical scenario in which a firm decides against spending additional resources to increase renewable energy usage in its supply chain, is perceived to be morally wrong to a much lesser degree. Compared with renewable energy, deciding against increasing racial and gender diversity in the firm is perceived to be morally wrong to a greater degree. At the same time, however, not increasing diversity ranks only seventh place with respect to perceived moral wrongness, significantly below CEO pay, layoffs, wage reductions, and outsourcing.

### 4.3 Moral vs. Financial Considerations

Even if many corporate actions are perceived as moral issues and as morally wrong, this will have limited consequences if participants believe that managers should approach the corporate decisions we present to them as pure financial issues, rather than as moral issues. In fact, evaluating legal corporate actions strictly through the lens of their financial benefits and costs is precisely what many economists since Friedman’s adage that *“the business of business is business”* (Friedman (1970)) have tended to endorse. We thus ask participants in our next set of questions how much they agree with the statement: *“This is purely a financial decision. When evaluating it, morals should play no role.”*

Figure 2, Panel (c) presents results. For better comparability to the other panels, higher values on the  $x$ -axes indicate less agreement with the statement; i.e., higher values are associated with the view that a given action is not purely a financial decision, and that morals should play a role. We find that participants on average soundly reject the view that the corporate actions we present to them should be evaluated purely on financial grounds. In fact, only 10.6% of them think so by strongly agreeing with the statement. Comparing across actions, we find roughly the same ordering as in the other panels. Participants thus exhibit substantial consistency in their moral views across three different sets of questions, with eleven corporate actions in each set. Based on the mean response across all corporate actions for each participant and each of the three survey questions, correlations between the questions in Panels (a) and (b) are  $\rho = 0.5$ ,  $\rho = 0.38$  for Panels (b) and (c), and  $\rho = 0.25$  for Panels (a) and (c).

Overall, we conclude that many corporate decisions are perceived as moral, not just financial, issues. Even more surprisingly, many classic finance textbook issues, such as labor cost savings, legal tax avoidance, and even increasing financial leverage, are perceived to

be significantly more of a moral issue than more recently emphasized E&S issues, such as renewable energy usage and workforce diversity.

Internet Appendix Figure IA.I presents relative ranks for each corporate action and question. Relative ranks are computed within person across the eleven corporate actions and present a simple way to remove respondent fixed effects from the analysis, and to reduce the influence of outliers. The figure shows that the relative rankings reflect a very similar ordering as the mean scores presented in Figure 2.

#### 4.4 Heterogeneity in Moral Preferences

Our survey allows us to analyze heterogeneity in responses, which is useful for two reasons. First, it provides us with a better understanding of how stable the moral preferences presented in the previous sections are across various subgroups of participants. Second, finding plausible variation across subgroups would strengthen the interpretation that our survey responses reflect genuine information about participants' moral preferences.

Table 2 presents aggregated results. The dependent variable is constructed by averaging the answers of a given participant across all eleven corporate actions for each of our three sets of questions; i.e., to what extent a corporate action is viewed as a moral issue, whether it is viewed as morally wrong, and to which extent the participant believes that a given corporate action should be evaluated on a moral basis as opposed to purely on financial grounds. To focus on comparisons across subgroups for which we have a sufficiently large number of observations, and therefore can draw more reliable conclusions, we remove subgroups consisting of less than 100 observations each from our tests in this section. These cases include participants indicating “*Do not know*” to the question of whether they are currently invested in the stock market ( $N=93$ ); participants indicating their political party preference as “*Other*” ( $N=17$ ), as well as participants indicating their gender as “*Other*” ( $N=12$ ). After removing these subgroups, we retain a sample of 2,881 observations.

Several personal characteristics emerge as important drivers of variation in moral preferences. Older (above 64 years old), white, Democrat, and female survey participants are significantly more likely to view the average corporate action as a moral issue (column (1)); they are more likely to view the average corporate decision as morally wrong (column (2)); and they are more likely to say that the average corporate decision should be evaluated as a moral issue, rather than purely as a financial issue (column (3)). The coefficients on these characteristics are statistically significant across all three sets of questions.

In terms of economic magnitude, these effects are also significant. For example, being female is associated, all else equal, with an average response that is 0.40 standard deviations higher ( $t = 10.4$ ) than for males on the question whether a corporate issue should

be evaluated on moral rather than purely on financial grounds (column (3)). Most likely to view the average action as a moral issue are self-identified Democrats, which, in our definition, includes both Democrats and individuals who lean Democrat. For this group, the average response is 0.36 standard deviations higher ( $t = 9.3$ ) than for Republicans (column (1)). Being white is associated with an increase in the average response of 0.27 standard deviations ( $t = 6.0$ ). Democrats are also most likely to view the corporate actions we present to them as morally wrong, with gender being the second-largest driver (see column (2)).

Across the three sets of questions, we observe three distinct patterns. First, personal and treatment characteristics appear to be better at explaining variation in the question of whether a corporate action should be evaluated on a financial or moral basis (column (3)) than of which actions are moral issues (column (1)) or morally wrong (column (2)). This can be seen from the fact that the  $R$ -squared of our OLS regression almost doubles and many more coefficients are statistically significant in column (3).

Second, for political views and race, the main disagreement lies in whether a given issue is perceived to be a moral issue. Survey participants who identify as white or as Democrats are more likely to view the average corporate action as a moral issue (column (1)). They are also more likely to view the average action as morally wrong, even though the gap to Republicans and to non-whites is slightly narrower in column (2). However, for both race and party identification, the gap shrinks when it comes to the evaluation of a corporate action on moral versus purely on financial grounds (column (3)). Compared with column (1), the effect is almost halved for race, and almost reduced to a third for party affiliation. In other words, Democrats and Republicans differ the most on what they perceive to be a moral issue, but less on the question of whether a corporate action should be evaluated on a financial or moral basis. That said, column (3) shows that the effect of race and party identification is still significant also on the latter subject.

For gender and age, the pattern is the opposite. The largest difference between female versus male and old versus young people (with male and young people being the omitted groups in the table) is whether a corporate action should be evaluated on moral versus financial grounds. Compared to viewing an issue as moral, the effect size is twice as high for age and almost three times as high for gender. Hence, females and older people on the one hand, versus males and younger people on the other hand, are more likely to agree on the set of issues they regard as moral issues or morally wrong, than on the question whether a corporate action should be evaluated on moral vs. purely financial grounds. Contrary to a popular belief that young people have an increased tendency to view business through

a moral lens, our results in Table 2 indicate the opposite.<sup>4</sup> In column (3), the effect sizes on *Female* and *Older than 64* are the largest effects for any variable in Table 2 (as the dependent variables are standardized, the coefficients are comparable).

Third, Table 2 also reveals that some personal characteristics matter for some of our moral questions, but not for all of them. For example, investors in our sample are not statistically different from non-investors in terms of what they regard as moral issues. But they differ strongly in columns (2) and (3): they are much less likely to believe that the average corporate action we present to them is morally wrong, and they are significantly less likely to say that a given corporate decision should be evaluated on moral rather than purely on financial grounds.

The patterns for high-income individuals and individuals with an economics/business degree are particularly interesting. Such participants substantially differ from other participants by believing much more strongly that business decisions should be evaluated purely on a financial basis and that morals should play no role. The patterns across the three columns indicate that this is not explained by stereotypical selection effects in which people become rich, or choose to study economics, because they have different perceptions of morality. If this were the case, we would expect to find a significant negative difference also in columns (1) and (2). In fact, however, we find a weakly significant coefficient with the wrong sign for economists in column (1) and cannot reject that coefficients on *Econ Degree* and *High Income* are otherwise zero in the first two columns. In any case, the coefficients on these two variables are much smaller in columns (1) and (2) than the coefficients in column (3) (which are between 4.5 and 12 times larger). This pattern is consistent with a potential treatment effect by which economists and high-income individuals are more likely to adopt the decision making approach taught in most economics and finance courses, which is to judge a decision by its financial costs and benefits rather than on moral grounds. It may also be consistent with the view that teaching in economics and finance has “succeeded” in instilling the principle of net present value maximization as a default means to evaluating corporate actions, although selection into an economics degree program may also play a role.

Figure 3 presents disaggregated results in the form of univariate sorts across different subgroups of respondents for each corporate action and question. These results are broadly in line with the aggregated multivariate results, but provide additional insights with respect to the individual corporate actions. Starting with the moral preferences that are stable across the columns in Table 2, we see that, for each of the eleven corporate actions we present to them, females are more likely than males to view an action as morally wrong

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<sup>4</sup>This finding of morals playing a larger role for older people is in line with the findings by Hart, Thesmar, and Zingales (2022) in another context.

and to evaluate it morally (Panels (b) and (c)), indicating once more a pronounced gender gap in moral preferences. Notably, while females are generally also more likely to view an issue as moral (Panel (a)), there are two exceptions: diversity and renewable energy. For both of these issues, males are more likely to say those issues are moral issues. Reflecting our results from Table 2, we observe heterogeneity by gender to be most pronounced for the financial versus moral considerations question, and least pronounced for the moral issue question.

For politics, Democrats are more likely to view actions as moral issues for each of the eleven issues (Panel (d)). The other two panels reveal interesting and plausible variation, which helps make the case that our questions capture genuine divergences in moral views. First, the only issue for which Republicans believe more strongly it is morally wrong and should be evaluated on moral rather than financial grounds is the issue of outsourcing. This appears consistent with efforts by the Trump administration to prevent jobs from moving overseas and with their prominent coverage by conservative media (e.g., Fox News (2016)), which may reflect an underlying preference of the Republican electorate. Second, the two issues on which divergence of perception by party identification in our survey is strongest are renewable energy and diversity, consistent with a large partisan gap in views on environmental and diversity issues documented in prior surveys (e.g., Pew Research (2020), Pew Research (2021)).

With respect to age, old people are more morally concerned about outsourcing, tax minimization, high level of CEO pay, and high debt levels in a company, while young people are morally concerned more about diversity, renewable energy, as well as bonus contracts for employees (see Panels (d) to (f)). With respect to race, we find that participants who self-identify as Asian are much less morally concerned than whites about outsourcing corporate functions to Asia (Panels (j) to (l)). These results are all plausible and provide evidence for the view that our participants provide informative responses even though our survey is not incentivized.

Panels (m) to (u) in Figure 3 present analogous results for splits by investor status, income, and economics degree. As discussed above, all three characteristics are associated with a greater tendency to evaluate a corporate action as a financial, rather than a moral issue. The right panels show that this tendency is strong and consistent across all eleven corporate actions. Still present, but markedly reduced, is the tendency of investors, high-income participants and individuals with an economics degree to disagree that a corporate action is morally wrong. For the moral issue question, however, the picture changes. Most clearly for economists and for high-income participants, we observe that they are, if anything, more inclined to perceive a given corporate issue as moral. In particular, this

is true for diversity and renewable energy, which also emerge as a greater moral issue for investors. The one exception is layoffs, which are perceived less as a moral issue by investors, economists, and high-income participants than for other individuals in our survey, which may be due to them focusing more on the positive financial impact (higher share price). In terms of magnitude, the figure shows that the divergence is much larger for the financial versus moral question. Overall, the key take-away from Panels (m) to (u) in Figure 3 is the strong tendency by investors, economists, and high-income participants to evaluate corporate actions on financial, not on moral, grounds, consistent with the results in Table 2.

Figure 4 presents relative ranks, split by subgroups. Consistent with the previous results, there is plausible heterogeneity in the *relative* moral importance that our participants assign to each of the 11 corporate actions. For example, Democrats assign greater relative importance to the issues of workforce diversity and renewable energy usage than Republicans. However, another interesting pattern emerges from Figure 4: despite some plausible heterogeneity, the *relative* moral importance assigned to the corporate actions is surprisingly stable across subgroups. For example, young and old respondents both agree that the issue of CEO pay is among the one or two most important moral issues; so do men and women, all racial groups, stock market investors and non-investors, all income groups, and people with or without economics degree. This finding is consistent with the idea of an “outrage constraint” that firms have to take into account when setting CEO pay (Bebchuk and Fried (2006)). In contrast, requiring the use of renewable energy in the supply chain does not rank among the three most important corporate issues for any subgroup.

To make this point more formally, in the Internet Appendix, we regress the average response across the three survey questions for each corporate action on personal characteristics. Internet Appendix Table IA.II uses the average response (on a 1 to 5 scale) and Table IA.III uses the average rank (on a 1 to 11 scale) as the dependent variable. Whereas the average *R*-squared is equal to 1.4% when we use relative ranks, it is more than three times as large (4.7%) when we use absolute values. Moreover, whereas coefficients are statistically significant at the 5% level for 41 participant characteristics when we use relative ranks, they are significant for 65 participant characteristics when we use absolute values. When they are statistically significant, the economic magnitudes of the effects of respondent characteristics also tend to be larger in Table IA.II. In other words, there appears to be greater heterogeneity across respondents when it comes to the *absolute* moral importance they assign to the 11 corporate actions, than when it comes to the *relative* moral importance of these issues. Put simply, while people may disagree on the morality of a particular corporate action, say, renewable energy usage of firm, they disagree much

less when they have to rank the morality of renewable energy usage against the morality of another corporate decision, say, on CEO pay. This finding – that the ranking of various corporate actions is rather stable across individuals – is of major importance to corporate managers who seek to focus their efforts on maximizing the non-pecuniary utility across a heterogeneous group of stakeholders.

## 5 Trade-Offs

In the existing literature, models which incorporate agents’ non-pecuniary utility feature a trade-off between financial and other sources of utility. For example, in Pedersen, Fitzgibbons, and Pomorski (2021), investors trade-off a preference for high-ESG scores (which may be due to moral considerations) against financial risk and return. The implied rate of substitution is a key statistic for how important non-pecuniary utility is relative to financial utility, or, put differently, how important values are relative to value.

To investigate this in our setting, a part of our survey asks participants whether they would prefer, at a personal cost, our hypothetical firm XYZCorp pursue a morally more attractive corporate action than the one we presented to them in the first part of the survey.<sup>5</sup> This is a yes/no question. For example, we ask whether participants would like a firm to not lay off employees, or to implement a new hiring system to increase gender and racial diversity in the firm (in the baseline scenario, the firm had decided to do the opposite). Where possible, we provide a short economic rationale for why choosing the moral action may be financially costly to the respondent. For example, we state that if XYZCorp decided to pay all taxes domestically (and therefore effectively pay more taxes), it may have to increase prices, which would lead to a higher shopping bill of a customer at XYZCorp’s stores.

We introduce random variation across participants along two dimensions. First, we randomly assign private costs of 0, \$100, and \$500 dollars. Second, having previously randomly assigned participants to employee, customer, and shareholder roles, we present them with questions that are specific to that role. The assigned role for a given survey

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<sup>5</sup>Note that we take a stand here on what most people would perceive to be the morally preferred option. We assume that the following decisions are morally more attractive: not laying off employees, not outsourcing, not avoiding taxes, not having incentive-based pay, not reducing employee wages, increasing diversity, lower CEO pay, promoting renewable energy usage, cutting dividends as part of general cost cutting, not increasing financial leverage, and establishing more board independence. For brevity, we refer to these actions which we believe a majority of people would perceive as morally preferred, all else equal, as the “moral actions” in the text. It is possible, that some participants would view the opposite as morally desirable, so for them, their answer should not depend on the cost (they would be against the change in corporate policy in all cases). Hence, our results in this section are driven by the participants who have the above moral preferences.

participant stays the same throughout the survey. In varying the costs and roles for participants, we follow a very similar approach by Hart, Thesmar, and Zingales (2022) and are therefore able to compare our estimates to theirs in another setting.

Figure 5 presents results. Panel (a) shows the fraction of respondents who would like the firm to change their previous decision and implement a more morally attractive policy. In this panel, as well as in Panel (b), we average across all eleven corporate actions for ease of exposition. If it is costless to a participant (our question frames this as “*at no financial cost or benefit to you*”), 68% of respondents would like the firm to change its decision and implement the moral action. Panel (a) also shows that, once we introduce a personal cost for implementing the moral option, the fraction of people who choose it decreases to 55% for a cost of \$100 and to around 47% for a cost of \$500. These differences are all highly significant, both statistically and economically. The difference between the low-cost and no-cost scenarios is significant at  $t = 16.3$  and the difference between the low-cost and high-cost scenarios is significant at  $t = 10.8$ .

Panel (b) of Figure 5 presents a breakdown by randomly assigned stakeholder roles within each cost group. For the no-cost scenario, we find similar results across shareholders, customers, and employees. If anything, employees and customers are slightly more likely to choose the moral option than shareholders. This changes dramatically once we introduce costs. For a cost of \$100 (our low-cost scenario), and even more strongly for the high-cost scenario of \$500, shareholders are significantly more likely to choose the moral option. For example, in the high-cost scenario, 43% of customers and employees would choose the moral option, whereas 56% of shareholders would do so, a difference that is substantial both economically and statistically ( $t = 10.6$ ).

Table 3 presents estimates of the implied cost-elasticity of moral choices. We estimate a linear probability model that regresses an indicator equal to one if the participant prefers the moral option on the hypothetical cost (in '00\$). Across all participants, for every \$100 increase in personal costs, the fraction of respondents who favor the moral action decreases by 3.3 percentage points (see column (4)). This number is close to the estimates obtained by Hart, Thesmar, and Zingales (2022) in a completely different setting (boycotting a firm that does business in Russia after the invasion of Ukraine), who find a decrease of around 5 percentage points in the willingness to boycott for a \$100 increase in the cost. This suggests that the rate of substitution between value and values may be relatively constant across various corporate domains, a potentially important question we leave for future research.<sup>6</sup>

Columns (1) to (3) in Table 3 estimate the cost elasticity of moral choices separately for each stakeholder group, confirming the visual findings in Figure 5. Whereas randomly

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<sup>6</sup>Landier and Thesmar (2022a) provide a more detailed overview of the available evidence of the price of values across a variety of policy contexts.

assigned customers exhibit an implied cost sensitivity of 4.3 percentage points, the same elasticity is equal to 1.7 percentage points for randomly assigned shareholders. In Internet Appendix Table IA.IV, we run regressions in which we interact our full set respondent characteristics from Table 2 with the cost variable and find that the shareholder role is the characteristic with the largest effect (by far) on the implied cost elasticity when compared with any other observable characteristic of our respondents. One potential explanation is that shareholders, as the owners of the firm, may naturally feel a greater responsibility for corporate actions at the broad strategic level.<sup>7</sup>

Further light on this point is shed by Panel (c) in Figure 5, which shows respondents' willingness to pay for the moral decision disaggregated by corporate action. As in Figure 2, we subtract again the sample mean and divide by the standard deviation for each question. Consistent with Figure 2, participants have a relatively high willingness to pay for companies to not lay off workers, to not reduce worker salaries, and to not outsource their IT department. They also exhibit a relatively lower willingness to pay for companies to increase their workforce diversity or the usage of renewable energy in their supply chain. One notable difference to our previous results is that CEO pay does not rank among the top three moral issues when it comes to willingness to pay. When we investigate this result further in Internet Appendix Figures IA.III to IA.IV, we find it is entirely driven by the participants who are assigned to the customer and employee treatment categories. While CEO pay only ranks eighth and seventh in terms of willingness to pay for customers and employees in the high-cost scenario, it ranks second after layoffs in the high-cost scenario for shareholders. This pattern may be due to the fact that the economic rationale for why customers and employees would have to give up money in order for the CEO to be paid less is less obvious, or they may perceive it as violating their notion of fairness. For shareholders, on the other hand, there is a plausible trade-off between the cost of losing a talented CEO and the moral cost of high within-firm pay inequity. Potentially also, shareholders may feel a much greater responsibility for the level of executive pay in their firm compared to employees and customers. Hence, they may be more inclined to incur personal costs in order to set CEO pay at an amount that is considered less morally offensive.

In Figure 6, we plot the share of respondents in favor of the moral action for each corporate decision and cost group. Comparing across cost groups, we find again that there is a trade-off between value and values, reflected in the decreasing rates of respondents being in favor of the moral action as the cost increases. Additional interesting patterns emerge. For example, in the absence of any financial benefit or cost, most respondents would like

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<sup>7</sup>Interestingly, Hart, Thesmar, and Zingales (2022), whose overall results are very consistent with ours, find the cost sensitivity to be the same for shareholders and customers, but lower for workers. Potentially, this is due to the fact that they look at a corporate decision that is very different from ours.

their firm to not engage in tax avoidance and pay taxes domestically. Once costs are introduced, however, eagerness to support that strategy wanes considerably. While 86% are in favor of paying taxes domestically when doing so is costless, that number drops to under 53% when paying taxes domestically generates a hypothetical cost of \$500. Put differently, the share of respondents in favor of the firm choosing to pay taxes domestically changes from being the highest rate across all corporate actions when it is costless, to the fourth largest rate of agreement when it costs \$500. Diversity and renewable energy show a similar pattern, starting at ranks five and six, respectively, and then dropping a notch for each of the two cost scenarios and ending up at rank six and eight out of 11 for the high-cost scenario. Relatively speaking, survey participants are thus more eager to endorse diversity and renewable energy when the personal financial cost of doing so is low. By contrast, no layoffs, no wage reductions, and no tax avoidance are reliably at the top of the list of moral actions participants would promote even in the face of personal financial costs. On the other end of the spectrum, board independence always ranks last. Notably, outsourcing shows a particularly low sensitivity to private costs and roughly 57% would like XYZCorp to keep its IT department located in the U.S., independently of personal costs. As a consequence, outsourcing is dominated by other corporate issues when it is costless, but, at a personal cost of \$500, it ranks second only to layoffs.

Our final analysis in Table 4 looks at heterogeneity in the willingness to pay for moral actions across respondents. The table shows three distinct patterns. First, both in the high-cost as well as in the no-cost scenarios, Democrats and females have a stronger tendency than other respondents to want the firm to opt for more morally attractive corporate actions. Second, older (above 64) respondents and respondents with college or post-graduate degrees are more likely to endorse moral corporate actions, but only if it costs them nothing. Once we introduce personal costs, we can no longer reject that the coefficients are zero, even though the point estimate for older individuals, in particular, is positive and comparatively large. One potential interpretation of these results is that older and more highly educated respondents are more likely to engage in virtue signalling. The pattern for white respondents is similar in that they stop endorsing moral action more once the costs are high, but they continue to do so in the low-cost scenario, so the interpretation is less clear. Third, and by contrast, respondents with economics and business-related degrees, investors, and, in particular, shareholders exhibit the opposite pattern. When it is costless to do so, those groups of respondents have a similar desire for the firm to engage in the moral action. However, once personal costs are involved, especially in the high-cost scenario, they have a far stronger tendency to endorse moral corporate actions. Related to the results we discussed above, the effect sizes for shareholders are

particularly large, with coefficients in both low and high-cost scenarios being the largest across all coefficients in Table 4 (coefficients are again comparable due to standardization). Because the shareholder status is randomly assigned, we can rule out that the results are due to shareholders being wealthier. For respondents with economics-related degrees and investors, the income control in our regression also makes an explanation based on wealth less likely.

We find two explanations plausible, and potentially valuable subjects for future research: shareholders and investors, as owners of companies, may feel a sense of responsibility for the moral corporate behavior; and respondents with an economics-related degree, being trained on the subject of substitution rates, may feel more at ease with the concept of having to pay for your moral convictions than non-economists. At any rate, finding that shareholders have a particularly pronounced willingness to pay for moral corporate actions has important implications. For example, it supports the idea that non-pecuniary utility should feature prominently in models of portfolio choice. It should also be informative for corporate managers to know that many of their shareholders would be willing to incur non-trivial personal costs in exchange for more morally attractive corporate actions, across a broader range of issues than previously thought.

## 6 Conclusion

In this paper, we study how a representative sample of the U.S. population perceives the moral desirability of a set of important corporate actions that managers routinely take in their companies and that finance professors frequently cover in teaching and research. The corporate actions we study include ESG issues proposed in prior work, as well as classic corporate finance textbook decisions. To the best of our knowledge, ours is one of the first systematic studies of individuals' moral preferences over a broad range of corporate actions that goes beyond narrowly defined ESG issues.

Our core findings are that: (i) all corporate actions we consider are perceived to be not just financial but also moral issues; (ii) many classic finance textbook issues, such as CEO pay, value-enhancing layoffs, wage reductions, legal corporate tax avoidance, and outsourcing decisions, are perceived to be significantly more of a moral issue than the ESG components emphasized in current executive pay contracts (e.g., environment and workforce diversity); (iii) participants trade off moral concerns against monetary costs; (iv) shareholders have a greater willingness to pay for morally desirable corporate actions than customers or employees. Although we observe significant and plausible heterogeneity across participants in the *absolute* importance given to moral considerations, the *relative* ranking

of the moral appeal of different corporate actions is surprisingly stable across participants. Finally, we show that participants with an economics degree have a similar evaluation of the morality of various corporate actions but differ substantially in how much weight they think corporations should place on moral as opposed to financial considerations.

These findings have important implications for both academic research and practitioners. For finance research, our findings that stakeholders view many classic corporate finance decisions as moral issues, and are willing to pay for them, raise profound questions about modelling financial decision making. For corporate managers our results have implications for how they can optimally integrate non-pecuniary utility of various stakeholders into their corporate decisions.

Finally, it is important to note that all corporate actions in our paper are legal and are often discussed in finance textbooks in the context of optimal managerial decisions. Our study is therefore not concerned with moral views about illegal corporate behavior, but with behavior which corporate managers who seek to act in the interest of their shareholders may consciously endorse. Our study sheds light on the tension between managerial decisions based on financial benefits and costs alone and the view of those actions as moral issues, which are, as we show, widespread in the U.S. population.

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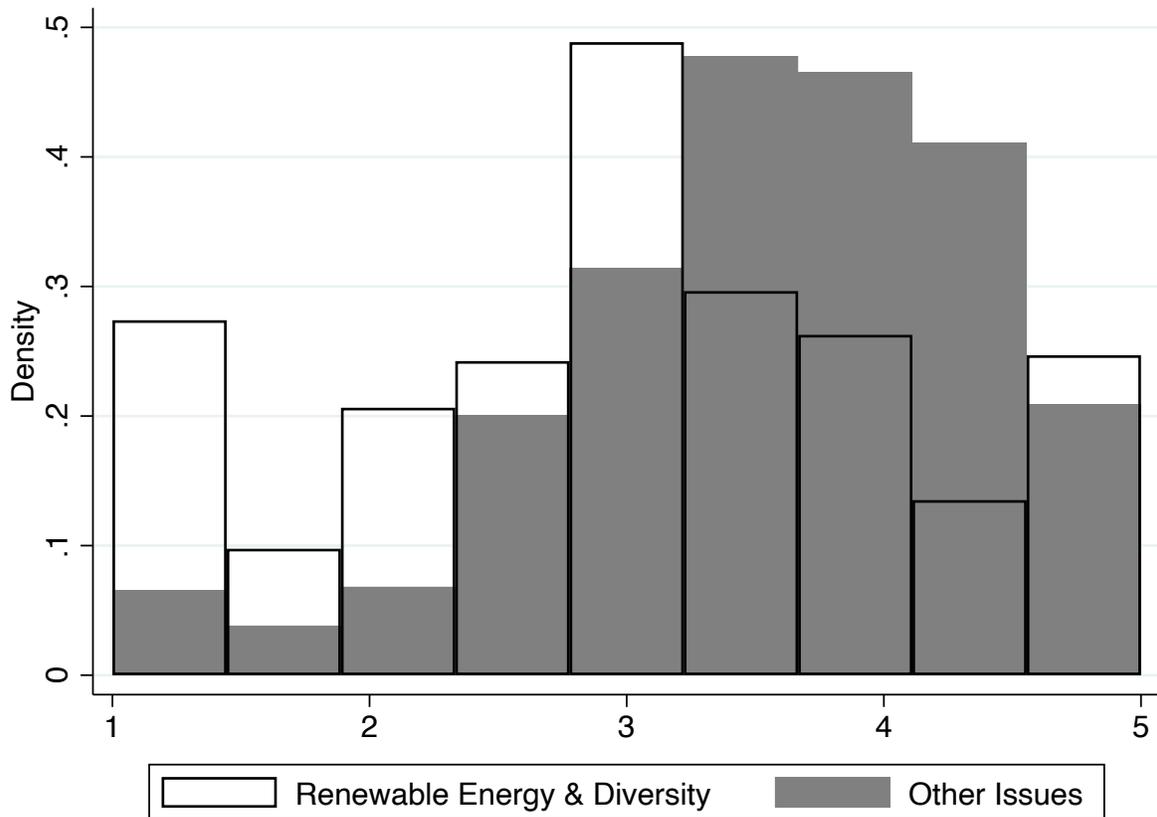


Figure 1: Moral Issues: Renewable Energy and Diversity vs. Other Corporate Actions  
 The figure reports the average response to the survey question about whether a corporate action is perceived as a moral issue, on a scale ranging from one (“*Not a moral issue at all.*”) to five (“*Clearly a moral issue.*”). The white bars present the histogram of the average responses for the corporate decisions related to renewable energy usage in the supply chain (S8) and workforce diversity (S6), whereas the grey bars present the histogram of the average responses to all other corporate actions.

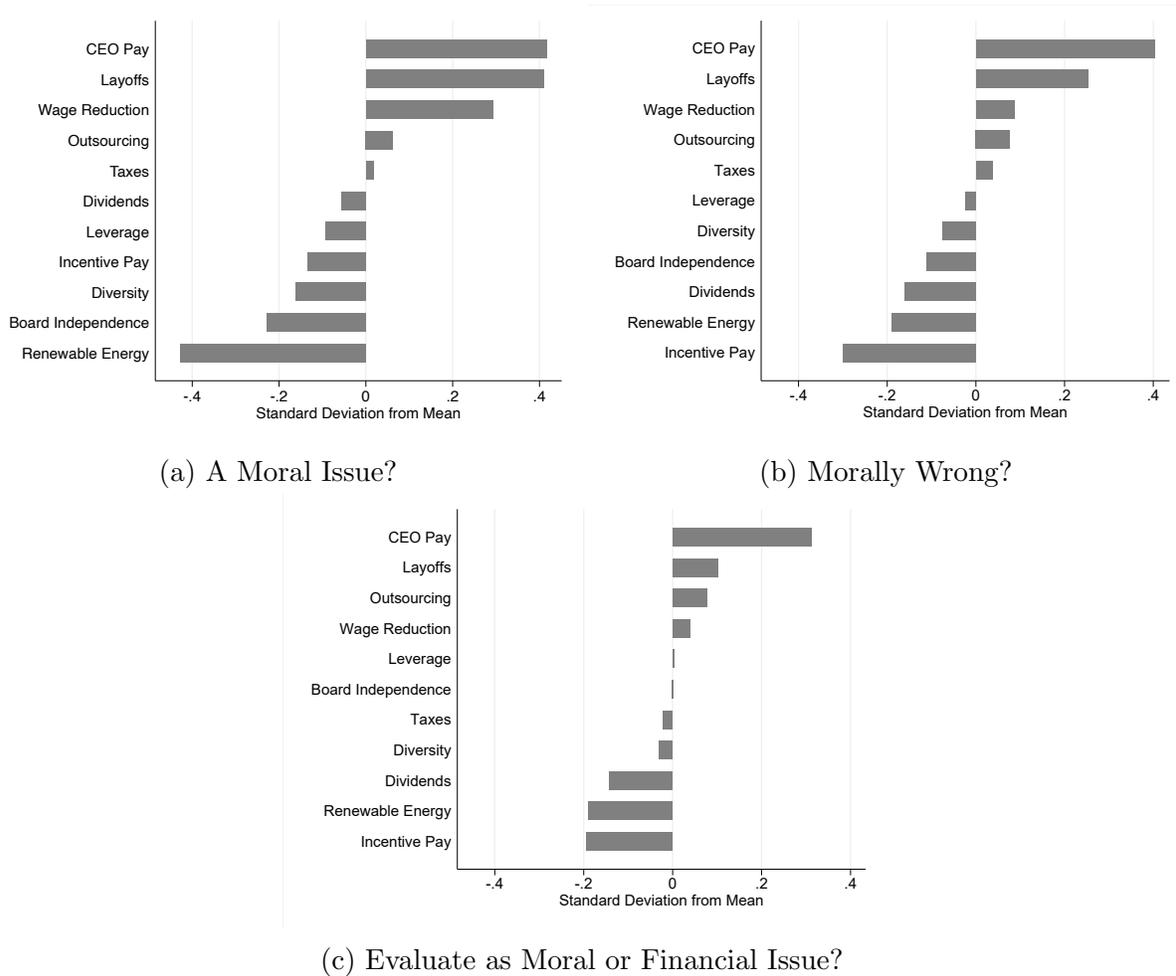


Figure 2: Morals and Corporate Actions

The figure reports the average response to the survey questions related to participants' moral views of corporate actions ((1) *“Is this a moral issue?”*, (2) *“Is this morally wrong?”*, and (3) How much do you agree with the statement: *“This is purely a financial decision. When evaluating it, morals should play no role.”*). We subtract the sample mean across all eleven questions and divide by the standard deviation of the average response, such that the figure shows the standard deviation from the overall sample mean for each question.

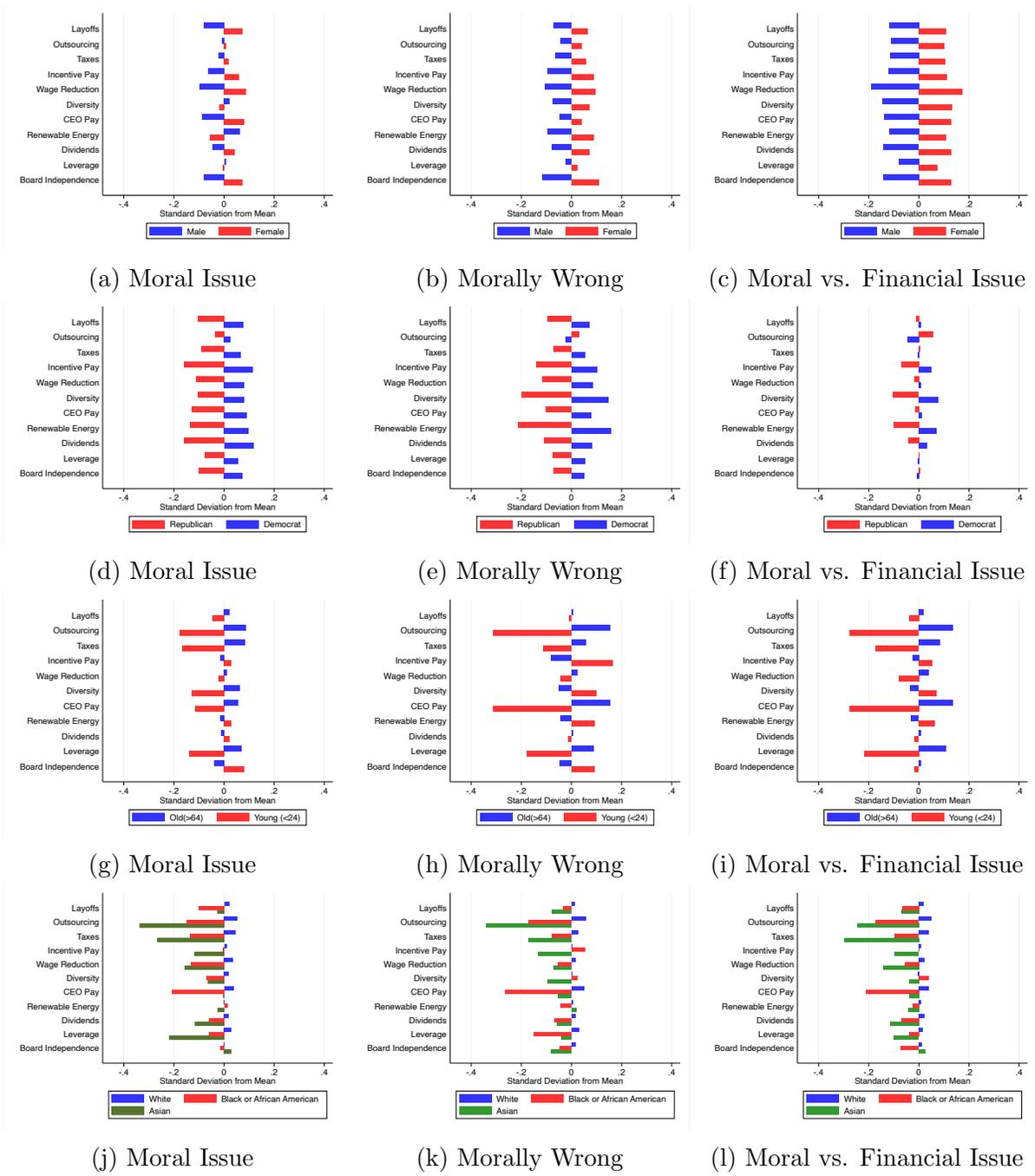


Figure 3: Heterogeneity in Moral Preferences Across Respondents

The figure plots the average responses to our three survey questions ((1) *“Is this a moral issue?”*, (2) *“Is this morally wrong?”*, (3) *How much do you agree with the statement: “This is purely a financial decision. When evaluating it, morals should play no role.”*) related to participants’ moral perceptions of 11 corporate actions by subgroup. We subtract the sample mean across all eleven questions and divide by the standard deviation of the average response, such that the figure shows the standard deviation from the sample mean for each question.

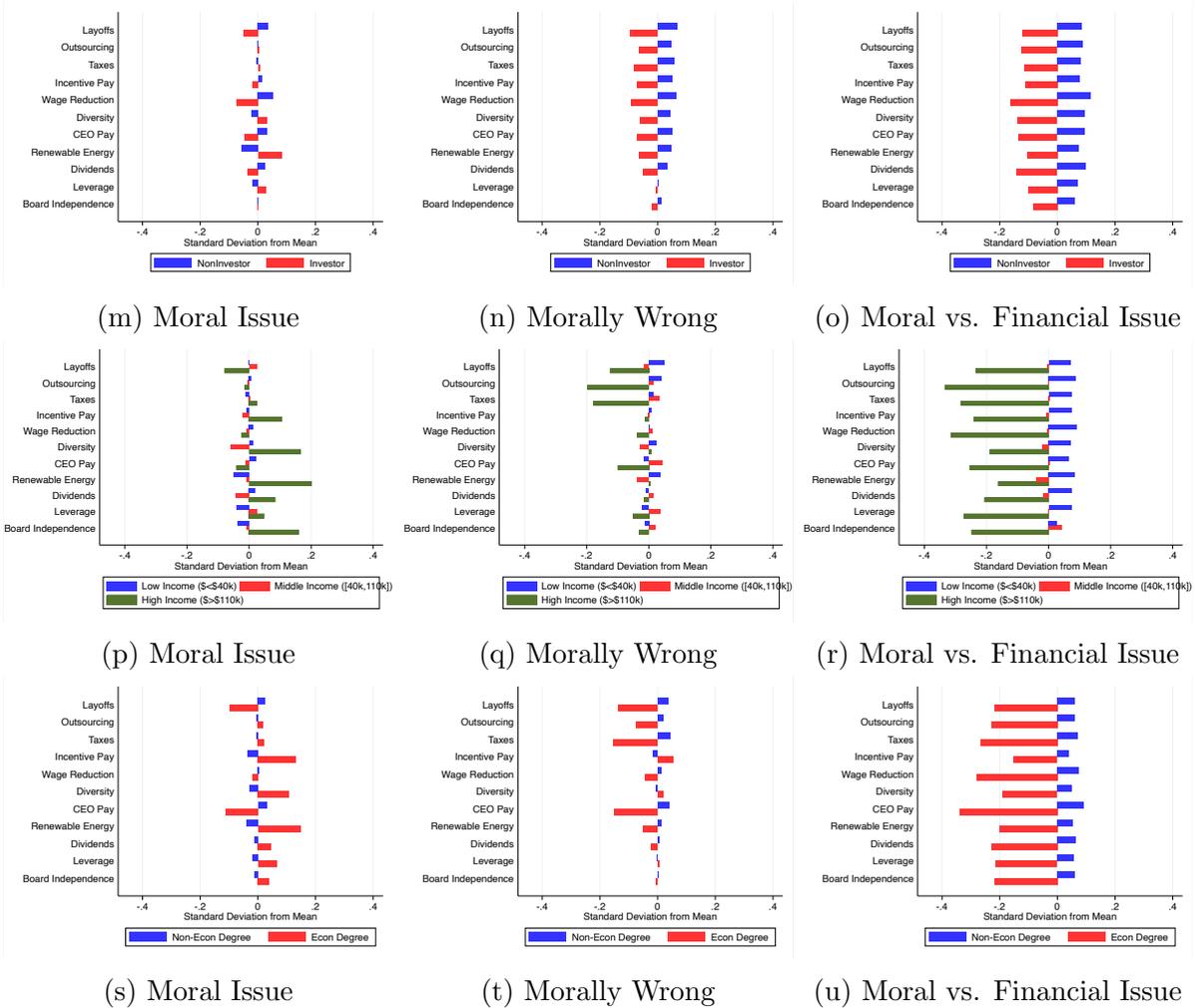


Figure 3: Heterogeneity in Moral Preferences Across Respondents (Continued)

The figure plots the average responses to our three survey questions ((1) “*Is this a moral issue?*”, (2) “*Is this morally wrong?*”, (3) How much do you agree with the statement: “*This is purely a financial decision. When evaluating it, morals should play no role.*”) related to participants’ moral perceptions of 11 corporate actions by subgroup. We subtract the sample mean across all eleven questions and divide by the standard deviation of the average response, such that the figure shows the standard deviation from the sample mean for each question.

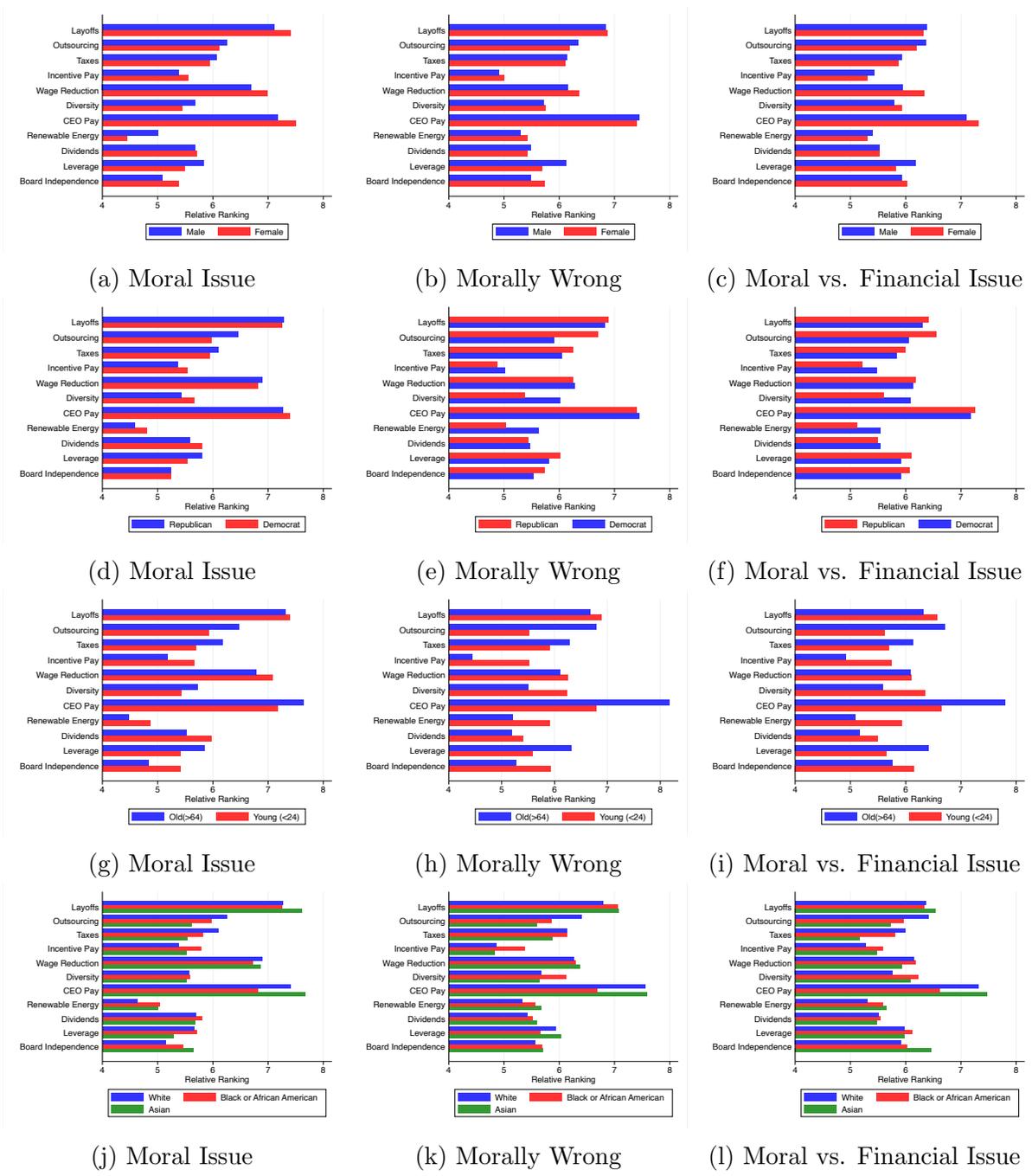


Figure 4: Heterogeneity in Moral Preferences Across Respondents (Relative Rankings) The figure plots the average responses to our three survey questions ((1) *“Is this a moral issue?”*, (2) *“Is this morally wrong?”*, (3) How much do you agree with the statement: *“This is purely a financial decision. When evaluating it, morals should play no role.”*) related to participants’ moral perceptions of 11 corporate actions by subgroup. For each participants and for each of the three survey questions, we rank the 11 corporate actions from highest to lowest value, such that the figure shows the average ranking of each corporate actions on a particular dimension for a given participant (11 would be highest possible ranking, 1 the lowest).

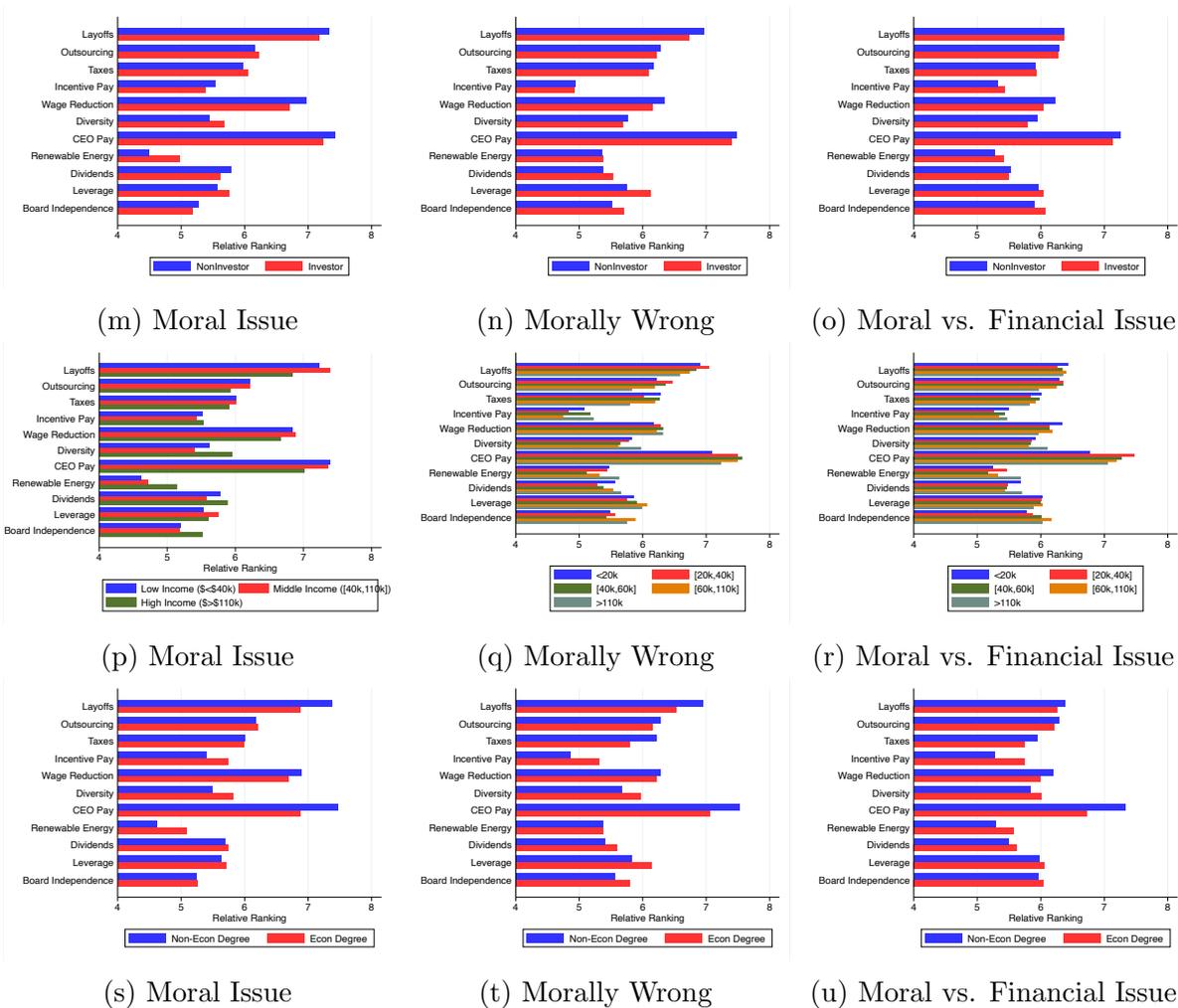
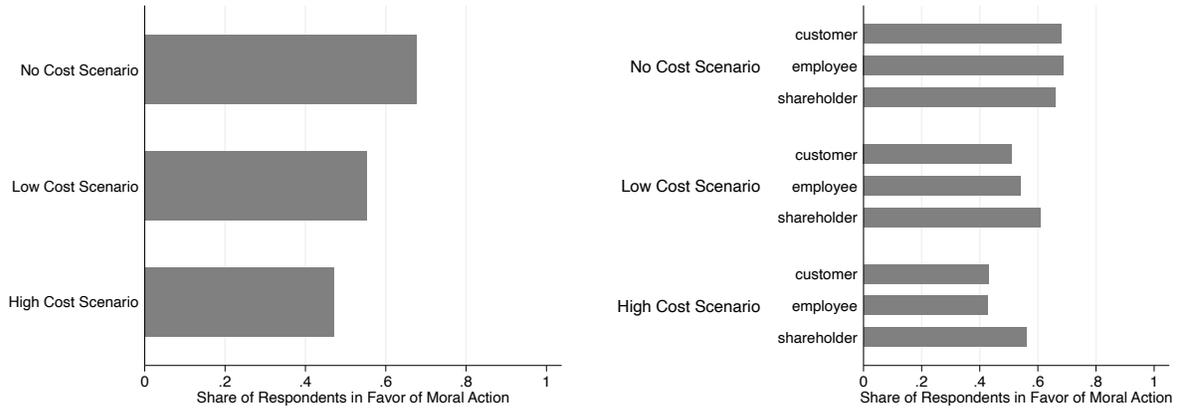


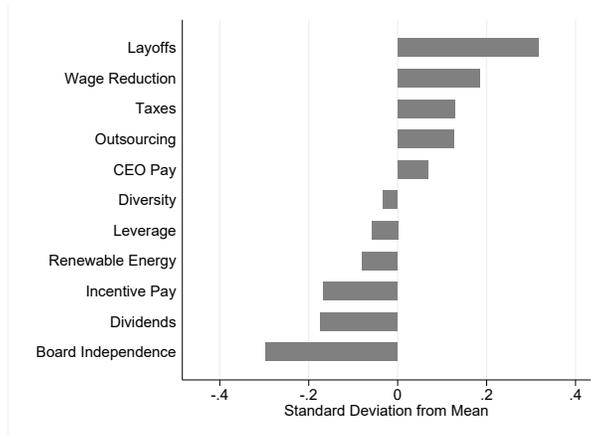
Figure 4: Heterogeneity in Moral Preferences Across Respondents (Relative Rankings, Continued)

The figure plots the average responses to our three survey questions ((1) “*Is this a moral issue?*”, (2) “*Is this morally wrong?*”, (3) How much do you agree with the statement: “*This is purely a financial decision. When evaluating it, morals should play no role.*”) related to participants’ moral perceptions of 11 corporate actions by subgroup. For each participants and for each of the three survey questions, we rank the 11 corporate actions from highest to lowest value, such that the figure shows the average ranking of each corporate actions on a particular dimension for a given participant (11 would be highest possible ranking, 1 the lowest).



(a) Full Sample

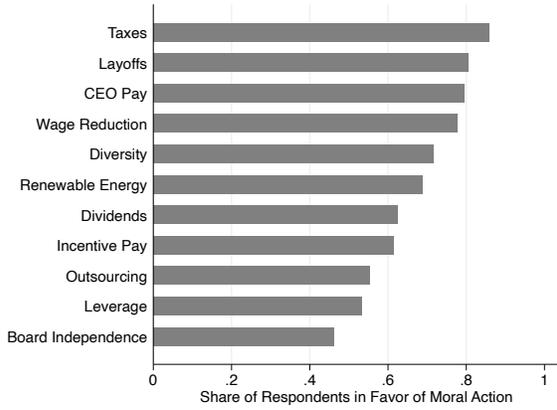
(b) Split by Condition



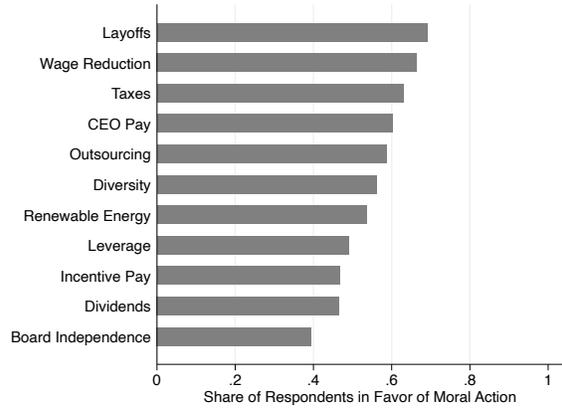
(c) Would Pay for Moral Action?

Figure 5: Trade-Offs

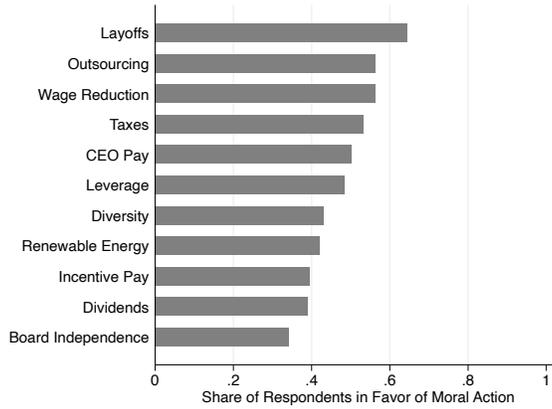
Panel (a) plots the share of respondents who are in favor of the morally more appealing corporate action by cost scenario: no cost, low cost ( $=\$100$ ), and high cost ( $=\$500$ ). Panel (b) repeats Panel (a), after splitting the sample further by treatment condition (employee, customer, or shareholder). In Panel (c), we plot the average share of participants who are willing to pay for the moral corporate action, averaged across all treatment conditions and cost groups. We subtract the sample mean across all eleven questions and divide by the standard deviation of the average response, such that the figure shows the standard deviation from the overall sample mean for each question.



(a) No Cost (= \$0)



(b) Low Cost (= \$100)



(c) High Cost (= \$500)

Figure 6: Trade-Offs: Support for Moral Action By Cost Group

The figure plots the share of respondents who are in favor of the moral corporate action by cost group: no cost, low cost (= \$100), and high cost (= \$500), as well as by corporate action, averaged across all three treatment conditions (customer, employee, shareholder).

### Table 1: **Summary Statistics**

This table presents summary statistics for our key variables. Panel A reports summary statistics for participants' demographic characteristics. Panel B reports summary statistics for the responses to the survey questions about participants' moral perceptions of corporate actions.

Panel A: Demographics

	Mean (%)	N
<i>Age</i>		
18 to 24 years old	11.2	3,000
25 to 34 years old	18.8	3,000
35 to 44 years old	20.0	3,000
45 to 54 years old	12.0	3,000
55 to 64 years old	15.2	3,000
65+ years old	22.8	3,000
<i>Education</i>		
College and post-graduate	45.9	3,000
Other	54.1	3,000
<i>Economics-Related Degree</i>		
Yes	21.3	3,000
No	78.7	3,000
<i>Gender</i>		
Male	47.6	3,000
Female	52.0	3,000
Other	0.4	3,000
<i>Race</i>		
White	75.4	3,000
Black or African American	13.6	3,000
Asian	5.8	3,000
Other	5.2	3,000
<i>Ethnicity</i>		
Other origin	82.0	3,000
Hispanic	18.0	3,000
<i>Stock market investor</i>		
Yes	39.9	2,907
No	57.0	2,907
<i>Income</i>		
Low (<\$40k)	33.3	2,909
Middle (\$40k<x<\$110k)	41.8	2,909
High (>\$110k)	11.8	2,909
<i>Political preferences</i>		
Republican	42.1	2,983
Democrat	57.3	2,983
<i>Occupational status</i>		
Employed	47.7	3,000
Retired	24.7	3,000
Unemployed	12.5	3,000
Self-employed	8.6	3,000
Student	3.3	3,000
Other	5.1	3,000

Panel B: Corporate Actions as Moral Issues

	<i>N</i>	Mean	Stdev.	p25	Median	p75
<i>Moral Issue?</i>						
Layoffs	2,996	3.956	1.237	3.000	4.000	5.000
Wage Reduction	2,996	3.809	1.229	3.000	4.000	5.000
Taxes	2,999	3.473	1.323	3.000	4.000	5.000
Outsourcing	2,995	3.531	1.303	3.000	4.000	5.000
Incentive Pay	2,996	3.276	1.287	3.000	3.000	4.000
Diversity	2,996	3.214	1.456	2.000	3.000	5.000
CEO Pay	2,996	3.982	1.278	3.000	5.000	5.000
Board Independence	2,995	3.137	1.370	2.000	3.000	4.000
Leverage	2,998	3.329	1.303	3.000	3.000	4.000
Dividends	2,993	3.378	1.264	3.000	3.000	4.000
Renewable Energy	2,995	2.860	1.380	2.000	3.000	4.000
<i>Morally Wrong?</i>						
Layoffs	2,999	3.582	1.120	3.000	4.000	4.000
Outsourcing	3,000	3.390	1.179	3.000	3.000	4.000
Taxes	2,998	3.343	1.164	2.000	3.000	4.000
Incentive Pay	2,999	2.945	1.182	2.000	3.000	4.000
Wage Reduction	3,000	3.398	1.130	3.000	4.000	4.000
Diversity	2,999	3.206	1.225	2.000	3.000	4.000
CEO Pay	3,000	3.776	1.184	3.000	4.000	5.000
Renewable Energy	2,999	3.084	1.141	2.000	3.000	4.000
Dividends	3,000	3.121	1.105	2.000	3.000	4.000
Leverage	3,000	3.273	1.151	2.000	3.000	4.000
Board Independence	3,000	3.175	1.129	2.000	3.000	4.000
<i>Moral vs. Financial Decision?</i>						
Layoffs	2,998	3.217	1.269	2.000	3.000	4.000
Outsourcing	3,000	3.184	1.268	2.000	3.000	4.000
Taxes	3,000	3.059	1.253	2.000	3.000	4.000
Incentive Pay	2,999	2.857	1.181	2.000	3.000	4.000
Wage Reduction	2,999	3.135	1.218	2.000	3.000	4.000
Diversity	2,999	3.048	1.249	2.000	3.000	4.000
CEO Pay	3,000	3.496	1.308	2.000	4.000	5.000
Renewable Energy	2,999	2.864	1.176	2.000	3.000	4.000
Dividends	2,999	2.920	1.167	2.000	3.000	4.000
Leverage	2,998	3.089	1.249	2.000	3.000	4.000
Board Independence	2,999	3.083	1.172	2.000	3.000	4.000

Panel B: Corporate Actions as Moral Issues (Continued)

	<i>N</i>	Mean	Stdev.	p25	Median	p75
<i>Share in Favor of Moral Decision</i>						
Layoffs	3,000	0.713	0.453	0.000	1.000	1.000
Outsourcing	3,000	0.568	0.495	0.000	1.000	1.000
Taxes	2,999	0.673	0.469	0.000	1.000	1.000
Incentive Pay	3,000	0.488	0.500	0.000	0.000	1.000
Wage Reduction	3,000	0.667	0.471	0.000	1.000	1.000
Diversity	3,000	0.573	0.495	0.000	1.000	1.000
CEO Pay	3,000	0.632	0.482	0.000	1.000	1.000
Renewable Energy	2,999	0.549	0.498	0.000	1.000	1.000
Dividends	2,995	0.494	0.500	0.000	0.000	1.000
Leverage	2,994	0.502	0.500	0.000	1.000	1.000
Board Independence	3,000	0.399	0.490	0.000	0.000	1.000

## Table 2: Heterogeneity in Moral Preferences Across Respondents

The table presents results from an OLS regression of participants' responses to the survey questions related to participants' moral preferences over 11 corporate actions: ((1) *“Is this a moral issue?”*, (2) *“Is this morally wrong?”*, and (3) How much do you agree with the statement: *“This is purely a financial decision. When evaluating it, morals should play no role.”*). All dependent variables are standardized to have a mean of zero and a standard deviation of one. Participants who identify their political preference or gender as *“Other,”* and participants who respond *“Do not know”* to the question of whether they have invested in the stock market, are removed from the sample. *t*-statistics based on robust standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote statistical significance at 10%, 5%, and 1% level.

	Moral Issue (1)	Morally Wrong (2)	Moral vs. Financial (3)
Between 24 and 64	0.211*** (3.78)	0.167*** (2.83)	0.050 (0.83)
Older than 64	0.177** (2.02)	0.224** (2.52)	0.353*** (3.97)
Investor	-0.045 (-1.01)	-0.142*** (-3.31)	-0.107** (-2.54)
White	0.265*** (5.95)	0.233*** (5.42)	0.143*** (3.31)
Hispanic	-0.029 (-0.63)	0.029 (0.59)	-0.083* (-1.75)
Democrat	0.363*** (9.34)	0.333*** (8.74)	0.123*** (3.30)
Female	0.152*** (3.85)	0.251*** (6.40)	0.401*** (10.37)
Employee	0.071 (1.59)	0.056 (1.25)	0.020 (0.46)
Shareholder	0.081* (1.77)	0.033 (0.74)	0.015 (0.35)
College and Post-Graduate	0.014 (0.33)	-0.031 (-0.73)	0.004 (0.10)
Middle Income ([40k,110k])	-0.027 (-0.64)	0.043 (1.04)	-0.014 (-0.34)
High Income (>110k)	0.056 (0.80)	-0.049 (-0.71)	-0.247*** (-3.70)
Econ Degree	0.084* (1.68)	-0.026 (-0.49)	-0.293*** (-5.85)
Other Employment	0.091 (0.96)	-0.017 (-0.18)	0.038 (0.45)
Retired	-0.013 (-0.19)	-0.026 (-0.40)	0.009 (0.14)
Self-Employed	-0.031 (-0.43)	0.009 (0.13)	0.188*** (2.71)
Student	-0.023 (-0.25)	0.043 (0.43)	0.232** (2.25)
Unemployed	-0.081 (-1.36)	-0.084 (-1.38)	0.150*** (2.60)
Constant	-0.706*** (-8.68)	-0.615*** (-7.67)	-0.407*** (-5.02)
R <sup>2</sup>	0.052	0.055	0.104
N	2,800	2,801	2,801

Table 3: **Trade-Offs**

The table presents the results from a linear probability model that regresses an indicator whether the respondent is in favor of the moral corporate action, and zero otherwise, on the cost of taking the moral action.  $t$ -statistics based on robust standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote statistical significance at 10%, 5%, and 1% level.

	Employee (1)	Customer (2)	Shareholder (3)	All (4)
Cost ('00 \$)	-0.043*** (-19.95)	-0.040*** (-18.55)	-0.017*** (-7.66)	-0.033*** (-26.60)
Constant	0.640*** (102.02)	0.621*** (98.41)	0.646*** (104.33)	0.636*** (175.82)
R <sup>2</sup>	0.035	0.030	0.005	0.021
N	10,985	10,951	11,051	32,987

Table 4: **The Price of Morality and Respondent Characteristics**

The table presents results from a linear probability model that regresses an indicator equal to one if the respondent is in favor of the firm executing the morally desirable choice on personal characteristics and stakeholder treatment. Participants who identify their political preference or their gender as “Other” and participants who respond “Do not know” to the question of whether they have invested in the stock market are removed from the sample. *t*-statistics based on robust standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote statistical significance at 10%, 5%, and 1% level.

	Cost=\$0	Cost=\$100	Cost=\$500	All
	(1)	(2)	(3)	(4)
Between 24 and 64	0.023 (1.13)	0.036* (1.67)	0.016 (0.73)	0.023* (1.73)
Older than 64	0.061** (2.24)	0.046 (1.57)	0.032 (1.07)	0.043** (2.33)
Investor	0.001 (0.11)	-0.014 (-0.99)	0.033** (2.30)	0.007 (0.74)
White	0.045*** (3.31)	0.040*** (2.69)	0.003 (0.19)	0.030*** (3.27)
Hispanic	-0.004 (-0.25)	0.023 (1.46)	0.017 (1.03)	0.012 (1.15)
Democrat	0.041*** (3.66)	0.074*** (5.98)	0.051*** (4.12)	0.055*** (7.10)
Female	0.027** (2.34)	0.006 (0.43)	0.026** (2.03)	0.019** (2.38)
Employee	0.013 (0.97)	0.027* (1.84)	-0.009 (-0.63)	0.011 (1.23)
Shareholder	-0.014 (-1.04)	0.091*** (6.35)	0.130*** (8.80)	0.070*** (7.71)
College and Post-Graduate	0.040*** (3.22)	0.009 (0.65)	0.011 (0.77)	0.020** (2.30)
Middle Income ([40k,110k])	0.020 (1.60)	0.017 (1.20)	-0.018 (-1.28)	0.005 (0.59)
High Income (>110k)	0.005 (0.28)	0.040* (1.90)	0.015 (0.70)	0.018 (1.42)
Econ Degree	-0.014 (-1.01)	0.012 (0.73)	0.031* (1.94)	0.010 (1.10)
Other Employment	0.027 (1.06)	0.041 (1.44)	-0.021 (-0.75)	0.015 (0.81)
Retired	0.019 (1.01)	0.020 (0.94)	-0.031 (-1.49)	0.003 (0.20)
Self-Employed	0.027 (1.32)	-0.004 (-0.15)	-0.004 (-0.16)	0.005 (0.31)
Student	0.036 (1.12)	0.033 (0.93)	0.050 (1.39)	0.035 (1.54)
Unemployed	0.006 (0.31)	-0.040** (-2.01)	-0.014 (-0.70)	-0.018 (-1.41)
Constant	0.541*** (20.17)	0.383*** (13.41)	0.359*** (12.00)	0.430*** (23.90)
R <sup>2</sup>	0.026	0.040	0.057	0.059
N	2,759	2,769	2,770	2,801