Beyond Numbers: How Investment Managers Accommodate Societal Issues in Financial Decisions

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Visual Cues Inject Emotion and Expertise into ESG Recommendations

What if investors paid as much attention to visual devices as they did to numbers? Would it affect their decision-making, and if so, how?

The authors of a 2018 study -- Diane-Laure Arjaliès and Pratima (Tima) Bansal, both of the Ivey Business School at Western University – set out to discover how investment managers accommodated environmental, social and governance (ESG) criteria into their investment models.

First, they noted that the primary "calculative devices" used in the investment industry are financial numbers – for example, prices, ratios, probabilities, and formulas. Financial numbers do not necessarily need to be expressed in monetary terms (e.g., as measures of risk and volatility), but they help organizations assess the worth of assets based on market value. The numbers used by investment analysts tend to rely heavily on financial economics and mathematical finance.

ESG criteria are often not quantifiable in traditional ways. The authors set out to discover whether visuals, instead of financial numbers, could be used, or useful, as a different method of "calculating" or presenting ESG criteria. At the time, few studies had looked into alternative forms of calculative devices.

The Study

Arjaliès and Bansal conducted a three-year ethnographic study of a French asset management company, investigating the decisions that investment managers made in selecting fixed-income and equities portfolios. They were able to collect insights from participant observations, interviews and corporate documents.

In fact, the primary ethnographer observed investment managers and ESG analysts almost every day for two and a half years (between 2006 and 2009) as an ESG analyst, in which she analyzed companies and countries using the calculative devices associated with each type of investment.

The researchers were most interested in analyzing the fixed-income analysts' and equity analysts' different approaches to financializing ESG issues, and their responses to new types of recommendations that were not numerical.

Results

The study found that fixed-income managers stuck to their entrenched way of estimating valuations. They did not integrate ESG issues into their investment practices because they could not find acceptable ways to fit ESG ratings into their financial models. Fixed-income managers resisted any intervention, such as the use of ESG criteria, that could threaten the perceived scientific basis of their valuation processes.

Equity managers, on the other hand, were interested in integrating ESG criteria in new ways. They treated financial numbers "as a doctor treats her instruments and medicines—useful for diagnosis and treatment, but the patient requires a thorough examination of the malaise." In fact, equity analysts were keen to know what was "behind the numbers". When equity analysts were presented with ESG issues and recommendations as emojis – smiley faces, unhappy faces, and the like – the visuals stood in stark contrast to financial summaries. Emojis made the ESG recommendations crystal clear: company performance on an issue was good, bad or so-so. Emails could be exchanged with only a title and an image, and, if needed, the ESG analyst would provide additional explanation.

With emojis included in company summary sheets, ESG issues took on their own value. Visuals made the distinction between financial and ESG issues highly perceptible, and through this "dissonance," societal concerns took on equal importance to numbers. They became a new and critical consideration for equity managers.

Implications

The authors concluded that equity managers perceived their existing calculative devices to be incomplete and open-ended. Both equity managers and ESG analysts were intrigued that they could not explain why some companies with poor ESG ratings performed well financially, while other companies with good ESG ratings performed poorly. They sought to better understand unseen risks that did not appear in the financial numbers.

Integrating different forms of calculative devices can spur a "sense of dissonance" that prods closer examination, the authors argue. They also acknowledge that some individuals are more likely to embrace dissonance than others. The findings discuss the importance of creating a sense of dissonance, and also highlight the limitations and dangers of techniques that become so ingrained that they no longer spark deeper thinking.

Emojis were not "empty" in this study -- they were full of content that couldn't be easily expressed in numbers or words. The emojis conveyed emotions, personal judgments, and choices. The study demonstrated that visuals can exhibit expertise, just as financial numbers do.

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