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The Anchoring Effect in ESG (Environmental, Social, Governance) Investing

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Abstract: This research paper delves into the intrinsic dynamics of the anchoring effect as it pertains to corporate engagement in green governance. The findings underscore two distinct phenomena: firstly, in the presence of solely an internal anchor, there is a marked internal anchoring effect. This indicates a direct correlation between the magnitude of a focus firm's expenditure and its green outlay. Conversely, when only influenced by an external anchor, there emerges a pronounced externality among companies affiliated with Global Prime Partners (GPP). Specifically, a prior heightened expenditure on environmental initiatives is indicative of potential benefits reaped from anchoring in the realm of Environmental, Social, and Governance (ESG) strategies. This paper further elucidates the implications of these anchoring effects on decision-making processes and offers strategic insights into harnessing their inherent advantages.

Keywords: cognitive bias, the anchoring effect, ESG, and green finance

1. Introduction

The anchoring effect is a cognitive bias in which people make decisions based on initial information. People tend to be overly dependent on the information they get (called "anchor points") when they make a decision, even if it doesn't matter to them. People usually use this information to make quick decisions when they make decisions (anchor points). In the next resolution, it will be based on the original decision and gradually revised. However, people tend to use the "anchor" to interpret other messages and decisions, and when the "anchor" differs from "reality", they will lose their way. Although this bias may have a negative influence on decision- making in the fields of green finance, environmental, social and governance, it can also bring benefits to ESG. This article will discuss the potential benefits of anchoring in the development of ESG, its impact on decision-making, and the strategies for making full use of its positive impact.

2. The anchoring effect

As a commonly used heuristic strategy, anchoring has been widely used in psychological community decision-making, especially in uncertain situations.

For example, A and B stores display the same 3,500 yen cookie mix. A's main cookie costs about 1,000 yen, so the 3,500 Yen cookie is "expensive" for customers. But in B, cookies are priced at about 5,000 yen, and if you see 3,500, you'll think they're "cheap."

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When a man estimates an uncertain quantity, he takes a value as a starting point or an anchor, and an "anchor" is created. This "anchor point" limits subsequent evaluations when an individual makes a final assessment based on his or her adjustment [1]. Tefsky and Kahneman believe that individuals tend to favor highlighted and memorable information excessively, while over-reliance on the "anchor" can lead to cognitive bias, leading to cognitive bias [2]. In order to solve this problem, Tviski and Kahneman proposed the concept of "anchoring and correcting". However, the correction process is often incomplete because of the anchoring effect.

In order to explain the role of anchors, Daniel Kahneman took a group of high-school students in 1974 and divided them into two groups, A and B, who had to figure out how to solve an equation within 5 seconds. Then, 1X2X3X3X4X5X6X7X8 was used in group A and 8X7X6X5X4X3X1 in group B. Both equations are computed at 40320, with a predicted value of 512 in Group A and 2,250 in Group B, which is four times different. The test emphasizes the importance of anchors in uncertain situations and prefers to correct them properly since people are more interested in the original information.

The anchoring effect is widely used in the field of brand building, business management and marketing. In the course of brand construction, the anchoring effect will influence the initial recognition of consumers. For instance, when a new product is launched, the initial price is relatively high, so that the consumer will view it as a premium product, even if it is modified later [3]. On the governance level, the anchoring effect results in the decision maker's excessive reliance on the anchor [4].

In the course of marketing, the anchoring effect has some effect on buying behavior and purchasing decision-making. For instance, it is more likely that the consumer will make a purchase decision based on an initial price point rather than an evaluation of the product itself [5]. Likewise, consumers will consider CSR as a stronger sense of CSR when implementing SDS and EHS [6].

In ESG investment, investors also have a significant role in their investment behavior, including environmental, social, and governance aspects.

3. The anchoring effect in the ESG investments

The anchoring effect can be seen in the establishment of environment protection policy, the establishment of environment policy, the promotion of environment policy and the rise of the market.

The so-called "pan-ESG" is actually ESG's present development status. Less than 20 years have passed since it was first proposed in 2004. It has already been recognized and acknowledged, but it only appeared in the last few years. Especially now that ESG is a hot topic, it's fair to say that Beijing has had a record number of records.

The anchoring effect is a critical factor in the choice and interpretation of the ESG. The characteristics of ESG data are complex and multidimensional, which makes it difficult for investors to assess and compare ESG performance. Therefore, investors usually use an environmental assessment system or concrete environmental index to direct their investment behavior. However, because of the over-dependence on the company's performance, investors tend to relate the performance of the company to the performance of the company, and neglect the relation between the performance of the company and the company. Firstly, ESG's value orientation helps the enterprise to catch The Times's pulse. During the enterprise development process, businesses can catch up with or lead The Times. ESG aids firms in understanding and dealing with climate change, biodiversity, and equity. If the peak of CCS is a test of whether an enterprise can transition and catch up with the pace of development, ESG plays a leading role.

The study found that using ESG levels creates an anchoring bias, where investors base their subsequent investment decisions on the initial level, regardless of accuracy [7]. For example,

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Benson et al. consider that although other data suggest inaccurate ratings, it is more likely for investors to rely on original ESG ratings issued by CRAs and based on later investment decisions [8].

Similarly, investors, will pay attention to ESG metrics like carbon emissions and board diversity and neglect other ESG-related factors. For example, an article notes investors are only concerned with carbon emissions, ignoring other environmental determinants like water and waste [9].

ESG has a lot to do with all things, "pan-ESG" is not a bad thing because it represents the idea of ESG, and it is something that we didn't see when we promoted CSR. But we also need to prevent ESG from distorting and pay more attention to ESG's value orientation and value orientation. Regarding the question of ESG value anchor, we can discuss the following three aspects.

Furthermore, the anchoring effect also plays an active role in the choice and explanation of ESG data. The use of ESG assessments, for instance, can provide a consistent and transparent basis for policy-making. MSCI, the Sustainable Institute, and other ESG rating agencies provide investors with a standard and comprehensible ESG rating system [10].

The anchoring effect will cause investors to attach great importance to the elements and methods of environmental protection in the process of formulating environmental protection policies and frameworks. The United Nations Guidelines for Responsible Investment (PRI), for example, is a means of incorporating environmental considerations into investment decisions. The Environmental Protection Index has put forward a series of measures to protect the environment, including the inclusion of environmental factors in investment decisions, cooperation with environmental companies, and the improvement of the environmental index [11].

Although the adoption of a PRI will generate an investor preference for ESG indicators, the PRI will also provide evidence of common guidelines and best practices. Based on this framework, it is more convenient for investors to compare and assess the performance of environmental protection, and to enhance their transparency and accountability.

But the anchoring effect also limits the applicability and innovation of ESG strategy. Even if new and innovative environmental protection strategies and structures are developed that match their value and investment objectives, investors will not be willing to depart from existing policies and structures. This will lead to insufficient innovation and progress in environmental protection.

The impact of ESG on commercial success is clear: development should consider not only financial profit but also the environment and society. Decision-making should consider the interests of all stakeholders. Natural resources should be viewed as part of natural capital. Company disclosure and transparency are no longer optional but must follow the rules. Companies should strive for harmonious coexistence with ESG objectives, such as carbon neutrality and environmental benefits while meeting their business objectives.

The anchoring effect may make the investors use more familiar words or narration methods in the course of the ESG investment. Although this may limit the scope and impact of the information dissemination, it will also help to increase the awareness and participation of the public in environmental and environmental issues.

Investors can, for instance, focus on sustainable ventures, such as cost savings or risk reduction, in order to attract interested parties. While this can raise awareness and participation in environmental issues, it also restricts the dissemination of environmental information due to the economic benefits.

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It is pointed out that the use of financial terminology and analytical methods may result in a narrow view of sustainable development, which focuses only on economic benefits and ignores the broader social and environmental impacts [12]. This is problematic, since doing so will lead investors to neglect or undervalue the nonfinancial aspects of environmental investments. For instance, the emphasis on cost-saving has placed short-term income above long-term sustainability.

Furthermore, the anchor effect can influence the effect of information dissemination on environmental ecology by restricting the method of narration. Investors may, for instance, refer to business examples, e.g. sustainable development, or ethical requirements relating to social and environmental concerns when communicating their investment in ESG. This leads to a lack of consensus with certain stakeholders and a lack of general understanding of the ESG issues.

Depending on the different stakeholders and the complexity of the environment, investors can adopt different communication strategies to cope with these constraints. It will, for instance, make the environment more attractive and environmentally friendly by introducing a range of values and interests [13]. Moreover, storytelling and other creative communication techniques can also help people to focus more on environmental issues and communicate the wider social impact of investing in environmental protection.

Another approach to reducing the anchoring effect in ESG communication is to focus on measuring and reporting impacts. Through the measurement and reporting of non-financial results, for example, the reduction of carbon emissions or the Social Impact Index, investors can communicate the wider meaning of the ESG investment beyond the economic returns. Therefore, the communication between environment and environment is not confined to the short-term economic benefits, but the environmental protection issues.

Generally speaking, the anchoring effect will influence the interaction and market behavior of the environment and the social environment, limiting the spread of the environment and the social environment. But because of the differences in the stakeholders and the complexity of ESG, investors use a series of communication strategies to reduce the anchoring effect.

4. Benefits of the anchoring effect in ESG investments

While the anchoring effect may negatively affect decision-making, it may also benefit the development of ESG investments, including:

4.1. Consistency

The anchoring effect can be used as a basis for decision-making consistency and transparency since investors depend on known information sources or structures. Anchors provide the foundation for consistency and transparency, owing to the information sources or structures that investors rely on.

One of the benefits of the anchoring effect in ESG investments is that decisions provide coherence and transparency. This is of particular importance in the case of EHS, as transparency and responsibility are key to ensuring both environmental and SRI investments. The anchoring effect provides a familiar source of information for investors or a framework that allows them to make consistent and transparent investment decisions.

The results indicate that the application of environmental protection and environmental quality assessment system can help investors to make the same decision. An MSCI study found that investors who made an investment decision on the basis of an ESG rating were more likely to pick a firm with a higher ESG than one with a lower ESG rating. Therefore, ESG rating can provide a uniform and transparent assessment system for ESG investment decision-making.

Likewise, using a well-established environmental policy framework, like the "United Nations Reform Agency", could provide a basis for consistent and transparent decision-making by investors.

According to a PRI survey, countries that incorporate ESG factors into their PRI's investment decisions will achieve better financial returns and ESG performance. This indicates that the environmental protection framework can offer a consistent and transparent approach to environmental investment.

The anchoring effect can not only be used in making environmental policy, but also make environmental policy more transparent. Depending on a known source of information or analysis framework, investors can better communicate their decision process and rationale to other stakeholders. This can make environmental policy more transparent, which is the key to building trust and credibility with all stakeholders.

Generally speaking, the anchor effect provides a basis for coherent and transparent decision-making, thereby increasing the credibility and legitimacy of ESG investments.

4.2. Standardization

The anchoring effect may result in common standards and best practices when investors prioritize ESG elements or methodologies.

Another benefit of the anchoring effect in ESG investments is the ability to generate common guidelines and best practices. Through the establishment of specific environmental factors or strategies, investors can form a common understanding of the performance of environmental protection and thus offer the best evaluation and selection.

Environmental quality levels can regulate the expectation of environmental protection. Research carried out by the Sustainability Analysis Institute found that companies with a higher EQQ were in a better financial situation than those with a lower QOL. This indicates that the ESG rating can be used as an indicator of the environmental performance of the enterprise and help the investors to build consensus on the environmental performance.

At the same time, it is also possible to use the framework of environmental protection and environmental protection to offer the best way to invest. PRI has developed a series of optimal approaches to incorporate environmental concerns in investment decisions and provide investors with a route map. This will normalise ESG's investment practices and encourage the sharing of best practices among investors.

The effect of this "anchor" would also prompt the development of common standards for measuring and reporting environmental protection and performance. Environmental protection indicators (such as, CO 2, CO , etc.) can be used to evaluate and compare environmental protection investments. This will contribute to the standardization of China's environmental protection and environmental protection reports, as well as the international comparative study on environmental protection in China.

In general, the anchor effect contributes to the measurement and reporting of the performance of the ESG by facilitating the standardisation of ESG performance expectations, the development of best practices in ESG investments, and the establishment of common standards.

4.3. Degree of familiarity

The anchoring effect can increase the public's awareness of the environmental problems, and make them participate more actively in the environment.

In ESG investment, the description and description of "familiar" usually results in an "anchor effect". This influence is reflected in the environment management, including the exchange of information in environment management and the marketing of environmental management. Though the use of familiar language or narration may restrict the scope and impact of G. G., it is helpful to raise the awareness and participation of the public.

The business case of sustainable development is a general term used to communicate with the environment. These descriptions emphasize the economic benefits of incorporating ESG elements into investment decisions, such as increasing long-term profits, reducing risk, and shareholder satisfaction. Based on this, investors will be able to attract more companies to participate in environmental management.

Another example would be the use of specific environmental indicators, such as carbon emissions or biodiversity-related indicators, to represent the environmental impact of investments. Many investors are familiar with this, as the ESG rating agency is commonly used to assess corporate sustainability. Through communication and marketing, investors will be able to identify the complex nature of their investments, and will be able to demonstrate how the environment and the environment influence their investment performance.

Although people are more aware of the G problem, they also restrict the scope and impact of GG. In the case of sustainable enterprises, for example, ESG investments are more valuable than social and environmental ones, which are common to some stakeholders. Moreover, the evaluation index of environment and ecology can't fully reflect the evaluation of environment and environment, and some of them are more important.

In addition, the use of familiar language and narrative techniques may preserve some of the ESG's fallacies and misconceptions. For instance, the idea that protecting the environment and protecting the environment has to be done at the expense of economic benefits. If the misunderstanding persists, investors may inadvertently block the attention of interested parties to the ESG issue or hinder them from investing in the ESG products.

In spite of the above limitations, common expression can be used as an effective means to let people better understand environmental G issues and participate in environmental G issues. Recent research has shown that CSR information with a view to sustainable economic benefits can encourage companies to engage more actively [14].

In addition, familiar terms are used, in particular for particular stakeholders like private investors and not-for-profit institutions. Through the simplification of the environmental investment structure, investors will be more involved in the environment and more accountable for the environment.

All in all, the common words and narration in ESG investment communication and marketing may have an "anchor" effect. Although this may restrict the spread of environmental ecology information, it will help us to know more about the environment ecology information, and contribute to the spread of the information. Investors should therefore be aware of the advantages and disadvantages of such an approach, and try to convey their knowledge responsibly and transparently.

4.4. Productiveness

Due to the reliance on known information sources or structures, the anchoring effect can reduce the time and resources required to make an investment decision.

One potential benefit of the anchoring effect in the environment is to increase the efficiency of decision-making. Depending on known information or structures, investors can save time and money in making environmental policy decisions. This is especially important in a rapidly expanding ESG portfolio, as ESG data is so large and complex that many investors cannot match it.

The results indicate that the standard analysis method can be used to analyze the influence factors of the environment. A Morningstar study, for example, showed that using ESG valuation in an investment analysis can save 1.5 hours per firm compared with traditional financial analysis [15]. Studies from Harvard Business School and other institutions have shown that using standard environmental reports may make society less efficient in protecting the environment [16].

But the benefits of the anchoring effect in terms of efficiency should also be taken into account for the potential disadvantages of relying on known data or frameworks. For instance, investors may make inaccurate or biased investment decisions if they rely on expired or incomplete environmental policy information. Moreover, if investors are overly dependent on the information or structure they know, they might miss out on new trends and opportunities for protecting the environment.

4.5. Accountability system

Due to the high confidence of investors in the environment, the anchoring effect can be used to make the environment more credible and transparent.

Another potential benefit of the anchoring effect comes from making sustainable development more credible and transparent. Through a coherent and transparent policy framework, investors can demonstrate their commitment to protecting the environment, as well as the accountability of all parties involved.

The ESG hierarchy and structure can provide a basis for consistent and transparent ESG investment decisions. The United Nations Code of Responsible Investment, for example, is a system that incorporates environmental concerns into investment decision-making and reporting. Under such a system, companies and investors are required to report honestly on their activities and performance in environmental management so as to ensure that stakeholders are accountable and transparent [17].

Likewise, there is transparency and consistency in ESG rating agencies like Morgan Stanley Bank and Sustainable Development Analysis. The above assessment and study are based on the standard environment policy structure and data to guarantee the coherence and transparency of environmental policy.

It is important to note, however, that there will be wide variations in the reliability and transparency of the ESG evaluation structure. The former research indicates that the ESG assessment mechanism is affected by the size of the enterprise, the industry and so on, which leads to inconsistent and biased results [18]. Furthermore, there is a discussion about the most efficient and reliable GMM framework and indicators. Some commentators have noted that the current GMM framework does not fully reflect the complexity and specificity of GM issues [19].

5. Conclusion

To sum up, the anchoring effect is a strong psychological concept which plays an important role in ESG investment. Therefore, the anchor effect has a great effect on the choice and explanation of environment protection policy, the establishment of environment protection policy and system, and the dissemination and promotion of environmental policy. Although the anchoring effect has both positive and negative effects, investors should be aware of the potential effect of "anchor" and take appropriate measures in time.

One way is to look for the source of the information and then challenge the prejudices and prejudices. For instance, investors may incorporate ESG factors and indicators in their investment decisions instead of including ESG ratings. In the meantime, investors can adopt the new strategy and method of environmental protection, which will bring a new challenge to environmental protection and sustainable development.

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The anchoring effect highlights the importance of using a consistent, evidence-based approach to ESG investments. This will help investors better understand these complex and volatile investments and make wise decisions that positively impact society and the environment.

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