

# THE ROLE OF ETHICS IN INVESTMENT DECISIONS: BEYOND THE BOTTOM LINE

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**Introduction:** It is widely recognized that the capital market has a significant impact on promoting social responsibility, especially as concerns about social responsibility gain momentum in the investing world. Emerging from the US and the UK, the concept of Socially Responsible Investment (SRI) has gained global recognition and is now regarded as a crucial financial term in the investment industry.

**Objectives:** The main focus of this research is to explore the role of morality in investing, with an emphasis on the growing impact of social, ethical, and environmental factors on investment decisions. The study aims to analyze investor attitudes and preferences to emphasize the variations among various investor groups. Furthermore, it seeks to contribute to the existing literature by providing insights into the historical context of ethical investment and its ongoing relevance in the dynamic realm of global finance.

**Approach:** A diverse approach is employed to achieve the study objectives. Tracing the origins of ethical investing involves conducting a thorough historical study, examining noteworthy events and influential movements. The study incorporates findings from multiple investigations and reviews the current literature. This versatile approach allows for a comprehensive analysis of the study's objectives.

**Findings:** The results showcase a deep understanding of the ever-evolving realm of ethical investing, recognizing its significance in the past and its relevance in the present. Different viewpoints on making money, moral advancement, and the connection between the two are emphasized through the recognition of investor groups. The study highlights the importance of ethical responsibility in building long-term viability, trust, and a positive reputation. The global perspective also highlights the universal nature of ethical investing concepts and their increasing importance on a worldwide level.

**Conclusion:** The study's conclusion highlights the significant impact of ethical investing and solidifies its position as a fundamental aspect of modern investment strategies. The text highlights the connection between financial success and ethical responsibility, urging investors and governments to integrate ethical considerations into their decision-making processes. This research has significant implications for investors and regulators alike, advocating for a comprehensive strategy that recognizes the enduring impact of values in shaping the trajectory of finance.

**Key Words:** Ethical investing, socially responsible investing, ESG investing, CSR, sustainable investing, financial success, investment strategies, governance standards, climate change, social responsibility, corporate governance, investor behaviour.

## INTRODUCTION

The importance of the capital market in fostering social responsibility is widely acknowledged, particularly as social responsibility concerns gain more prominence in the investment landscape. Both individual and institutional investors are now actively involved in monitoring the activities of the companies in which they invest. The concept of Socially Responsible Investment (SRI), which originated in the US and the UK, has become a global movement and is now widely recognized as a crucial financial term in the investment industry.

In today's ever-changing world, a wide range of investors, spanning from individual retail investors to large institutional investors, as well as financial institutions, investment companies, and money managers, are embracing socially responsible investing practices. This approach strives to not only generate long-term financial returns, but also to make a positive social impact on society. Investors are increasingly taking into account Environmental, Social, and Governance (ESG) factors when making investment decisions. They understand that these factors, in addition to financial performance, have a significant impact on shaping investment strategies.

Investors who prioritize ethical or socially responsible investing often use terms like 'green,' 'social,' or 'mission-based' to describe their approach. Among these terms, ethical or socially responsible investors are frequently discussed in both popular and academic literature.

Considering the prevailing socioeconomic conditions in India and the growing recognition of the significance of business in society, there is a rising agreement on the necessity of implementing social responsibility criteria in the investment industry. This highlights the changing landscape in which investors are not solely concerned with financial profits, but are actively making a positive impact on social and environmental issues through their investment decisions.

In the ever-evolving realm of finance and investments, there is a growing recognition of the importance of considering ethics alongside profit margins and financial returns. This broader perspective is shaping investment decision-making. The notion that ethical considerations should be a central factor in investment decisions extends beyond a simple moral standpoint. It demonstrates an increasing acknowledgement of the interdependence between financial success and ethical accountability. This article explores the changing landscape of ethical investing and how factors beyond financial gain are now crucial in shaping investment strategies.

### **Research Objectives;**

1. To investigate the shift of ethical investing from peripheral to central in shaping investment strategies.
2. To examine the relationship of financial success with ethical responsibility.
3. To identify the historical context and dimensions of sustainable and responsible investing.

**Methodology:**

A diverse approach is employed to achieve the study goals. Tracing the origins of ethical investing involves conducting a thorough historical study, examining important events and movements. The study also explores the body of previous research, incorporating ideas from multiple studies written by authors from both domestic and international sources. This comprehensive approach allows for a thorough examination of the study's objectives.

**Research Significance**

This study holds great importance as it delves into the evolving landscape of ethical investing, highlighting its transformation from a peripheral concern to a pivotal element in shaping investment strategies. This study enhances our comprehension of the intricate relationship between profit goals and ethical concerns by emphasizing the link between financial achievement and moral duty. The research findings are instrumental in guiding investors, financial institutions, and politicians to make ethical and informed decisions that positively impact financial outcomes and the overall welfare of society.

**The History of Ethical Investing:**

Investing with a focus on ethics, also referred to as socially responsible investing (SRI) or environmental, social, and governance (ESG) investing, entails assessing companies not just on their financial performance but also on their ethical practices, environmental impact, and social responsibility. This approach takes into account a company's dedication to upholding ethical conduct, promoting diversity and inclusion, prioritizing environmental sustainability, and adhering to governance standards.

The origins of Social Investing can be traced back to the politically charged climate of the 1960s. This era saw a significant rise in various social and environmental movements, including civil rights, women's rights, anti-war activism, and environmental concerns. These movements brought about a greater understanding of the importance of social responsibility, expanding to include concerns about management and labour, as well as opposition to nuclear power. In the late 1970s, social investing gained traction, attracting a broader group of American investors, primarily motivated by concerns about the discriminatory apartheid system in South Africa.

In the 1970s and 1980s, an increasing number of investors employed screening and shareholder advocacy to promote change in South Africa. Both individual and institutional investors made a conscious decision to refrain from investing in companies operating in South Africa. They also supported shareholder resolutions encouraging companies to disengage from the region. This historical context demonstrates the progression of socially responsible investing, as investors actively incorporate ethical considerations and advocate for social change through their investment choices.

In the past, investment decisions were mainly focused on maximizing financial gains, with little consideration for their wider effects on society, the environment, or corporate governance. Nevertheless, there has been a significant shift in thinking, recognizing that investing with a focus on sustainability and responsibility is not only ethically sound but can also lead to long-term financial prosperity.

## **Paradigm Shift of Ethical Investing;**

Historically, the primary objective of investment decisions was to maximize financial rewards, often overlooking ethical considerations. The shift towards ethical investment demonstrates a broader recognition that investing in an ethical and sustainable manner not only aligns with moral values, but also offers financial advantages.

The perception of ethical investing has undergone a significant transformation, elevating it from a peripheral consideration to a pivotal determinant in shaping investment strategies. Investors today recognize that achieving long-term financial success hinges on taking into account social, ethical, and environmental factors.

Ethical investing evaluates businesses based on their commitment to social responsibility, environmental impact, and ethical behaviours, in addition to their financial performance. This method considers factors such as a company's commitment to diversity, environmental sustainability, ethical conduct, and governance practices.

The shift is indicative of the growing awareness among investors, financial institutions, and businesses regarding the significance of ethical conduct. Businesses are increasingly recognizing the importance of addressing ethical concerns to enhance their long-term financial sustainability, strengthen stakeholder relationships, and safeguard their reputation.

## **The Role of Ethical Responsibility in Financial Success:**

Companies and investors are increasingly recognizing the strong connection between social responsibility and financial success. This shift in perspective emphasizes a departure from regarding ethical concerns as secondary to the primary task of creating solutions for ethical and sustainable investing. Recognizing this interconnectedness reveals that ethical responsibility is not just a moral obligation, but also a vital determinant of sustained financial prosperity.

- **Building Credibility and Reputation:** Acknowledging ethical responsibility greatly influences how stakeholders interact with a company and perceive its standing. Companies that prioritize ethical behaviour foster trust among their clients, employees, and the wider community. As a result, this trust cultivates an environment that is conducive to financial prosperity. The idea that a positive company image, driven by ethical responsibility, has the potential to enhance customer confidence and brand loyalty, and ultimately impact financial performance, is gaining attention from investors.
- **Ensuring Long-Term Sustainability:** A company's ability to thrive in the future is closely tied to its dedication to ethical responsibility. Businesses that align their operations with ethical principles are more equipped to navigate challenges as they arise. Over time, the ability to adapt to changing social norms contributes to the development of financial resilience. Investors recognize that companies with a solid moral framework are better equipped to handle unexpected challenges and can therefore achieve enduring prosperity alongside immediate gains.

- **Prioritizing Risk Reduction:** Taking an ethical stance involves actively addressing hazards and legal obstacles. Companies that address ethical concerns directly reduce the risk of scandals, legal issues, and damage to their reputation, all of which can impact their financial performance negatively. Investors understand that integrating ethical responsibility into corporate operations safeguards companies from potential financial losses stemming from unethical behaviour, while also aligning with societal norms.
- **Aligning with the Preferences and Values of Investors:** The relationship between ethical responsibility and financial performance is greatly influenced by how well a company's values align with those of its investors. There is a growing trend among influential investors to prioritize investments that align with their moral values, reflecting a heightened sense of social consciousness. Investors seek opportunities that not only yield financial returns but also have a positive social impact. Therefore, companies that prioritize ethical standards are more likely to attract a growing number of investors who consider the impact on society and financial success equally important when making investment choices.
- **Navigating the ever-changing landscape of market and regulatory dynamics:** The importance of ethical responsibility is highlighted by the evolving regulatory landscape and business advancements. Companies that prioritize ethical values not only comply with legal requirements but also strategically assess their market positioning. Investors recognize the importance of addressing ethical concerns, as it aligns with legal requirements and societal expectations, ultimately contributing to the overall success of the business in a competitive industry.

### **Beyond the Bottom Line:**

1. **Corporate Social Responsibility (CSR):** Companies that actively engage in ethical behaviour and demonstrate a commitment to CSR are becoming increasingly attractive investment opportunities. Considering that a socially conscious firm is likely to be more resilient in the face of social and environmental challenges, investors are now evaluating a company's CSR programs as an indication of its values.
2. **Environmental Impact:** Due to growing concerns about climate change, investors are attentively analyzing a company's environmental policies. Companies that prioritize renewable energy sources, reduce carbon emissions, and embrace ecologically sustainable practices are greatly valued by ethical investors. This mitigates the potential long-term consequences associated with environmental obligations and aligns with global endeavours to combat climate change.
3. **Social Responsibility:** Ethical investing considers social responsibility alongside environmental concerns. Companies that prioritize human rights, fair labour standards, and fostering diversity and inclusion in the workplace are increasingly sought after by investors. Companies that actively contribute to the betterment of the communities in which they operate are seen as more attractive investment prospects.
4. **Governance Standards:** The ethical standing of a company can be largely assessed by the effectiveness of its governance processes. In today's business landscape, investors are carefully scrutinizing the accountability, transparency, and integrity of corporate governance systems. Discerning investors are

increasingly recognizing the value of companies that prioritize shareholder rights, demonstrate ethical leadership, and foster a culture of accountability.

### Dimensions of Sustainable and Responsible Investing

1. **Environmental Factors:** One aspect of sustainable and responsible investing involves evaluating a company's environmental impact. Investors take into account various aspects, including carbon footprint, energy efficiency, waste management, and compliance with environmental regulations.
2. **Social Responsibility:** Recognizing the importance of social responsibility, companies must prioritize ethical conduct and making positive contributions to society. Investors carefully assess various factors including labour practices, human rights, diversity and inclusion, and community engagement.
3. **Standards of Governance:** Governance standards are crucial in ensuring sustainable and responsible investing. Investors evaluate the calibre of a company's governance structures, which encompass board composition, executive compensation, and transparency.
4. **Screening for Ethical Investments:** When it comes to ethical investment screening, certain industries or companies are excluded based on ethical criteria. Investors may steer clear of industries that are often subject to scrutiny due to their involvement in controversial activities, such as tobacco, alcohol, or weapons.
5. **Investing with a Purpose:** This dimension emphasizes the pursuit of positive social or environmental outcomes in addition to financial returns. Impact investors purposefully allocate capital to businesses or projects that support sustainable development goals.
6. **Promoting the interests of shareholders:** Shareholder advocacy entails actively engaging with companies to shape their ethical and sustainable practices. Investors utilize their ownership positions to champion for positive changes in various areas, including environmental policies, human rights, and executive compensation.

The various dimensions of sustainable and responsible investing contribute to its complex and holistic nature. It involves looking beyond financial metrics to assess the broader impact of investments on the environment, society, and corporate governance.

## REVIEW OF LITERATURE

Author(s) & Year	Main Focus	Key Findings
Sparkes (2001)	Ethical investment's rapid growth, lack of critical attention, and conceptual framework.	In addition to examining the definitions of "ethical," "green," and "socially responsible," Sparkes also examines the historical evolution of ethical investment and the difficulties in designating public investment as "ethical" in a pluralistic society. The importance of shareholder action in ethical investment is evaluated, and ethical decision-making is also covered in this study.
Hofmann, Meier-Pesti, & Kirchler (2007)	Ethical decision processes in financial markets and the application of the issue-contingent model.	The study shows that moral judgments are positively influenced by perceived moral intensity by using the issue-contingent paradigm to explain ethical investment decisions. We talk about marketing techniques for ethical investments, focusing on how detailed descriptions of businesses' business practices affect people's perceptions of moral intensity.
Hofmann, Meier-Pesti, & Kirchler (2005)	Changing shareholder demand for ethical investment and testing economic and psychological models.	The impact of moral considerations on investment decisions is examined, as well as the shift in shareholder demand for ethical investments. The study examines the multiple attribute utility theory, the issue-contingent model, and the theory of planned action. The results indicate that moral considerations play a substantial role in investing decisions. Discussion is held regarding the implications for comprehending moral investing behavior.
Hofmann, Hoelzl, & Kirchler (2008)	Suitability of multiple models to explain moral behaviour in financial markets.	The purpose of this study is to determine whether several models—such as the issue-contingent model, the theory of planned action, and the many attribute utility theory—are appropriate for explaining moral behaviour in financial markets. The findings show that moral factors have an impact on investing decisions even after accounting for profit. The

		contrasts between the models and their implications for comprehending moral investing behaviour are covered in the paper.
Stanley (1990)	Ethical perspectives on foreign direct investment decisions and corporate responsibility.	Stanley discusses the moral agency involved in decisions about foreign direct investment and looks at them from an ethical standpoint. This paper applies insights from contemporary Western philosophical and theological ethicists to a critique of historical theories of capital distribution. The relevance of ethical methods or metaphors to decisions about multinational foreign direct investment is examined, with a focus on the business manager's duty as a moral agent.
Parmitasari, Hamzah, Alam, & Laba (2018)	The influence of investment ethics on investor behaviour and financial satisfaction.	The study examines how capital market investors' behaviour and level of financial happiness are impacted by investment ethics. The results show that investor behaviour acts as an intervening variable between financial pleasure and investing ethics. The study highlights the positive relationship that exists between ethics and investment, emphasizing how individual behaviours can lead to improvements in pleasure.
Ransome & Sampford (2016)	Socially responsible investment (SRI) under consequentialism, Pigouvian taxes, and capital regulation.	The study examines socially responsible investment (SRI) from a consequentialist standpoint, revealing factors that influence the green premium, analysing the effects of capital regulations and Pigouvian taxes, and evaluating the circumstances in which divesting improves societal welfare. The comparison between consequentialism and the consequences of other moral standards is part of the analysis. The study's conclusion presents various extensions and examines the part that sophistication of investors plays.
Smith & Johnson (2019)	Growing trend of corporate social	The article skilfully explores the growing trend of considering corporate social responsibility when making investment decisions. The emphasis on the

	responsibility in investment decisions.	resilience of socially conscious companies in the face of challenges adds depth to the discussion and provides a compelling argument for the integration of ethical principles. Exploring corporate social responsibility, environmental impact, and governance standards offers a deeper understanding of the intricate ethical considerations involved in investment decisions.
Richardson, (2009)	Ethical investing and its potential to address complex global challenges.	This essay puts ethics first and succinctly captures the evolving field of investing methods. It is persuasively argued that incorporating ethical principles is not only morally required, but also a calculated step toward a more ethical and sustainable financial environment. The comprehensive examination of environmental, social, and governance (ESG) aspects in ethical investment deepens the conversation by highlighting the relationship between moral obligation and financial gain.
Berry & Yeung (2012):	To understand the significance of morality in investment.	Three investor groups have been identified: materialistic (prioritizing money benefits), opportunistic (agnostic about ethical vs. financial gains), and committed (prioritizing ethical improvement).
Hellsten & Mallin (2006):	Examined social responsibility from philosophical, moral, and practical perspectives.	Centred on the promotion of moral and ethical principles by UK institutional investors. highlighted the UK Ethical Funds' significant expansion and the part that everyday citizens play in transforming society. highlighted the involvement of global investors in the stock markets.
Schwartz (2003):	Explored issues of transparency and advertising in ethical mutual funds.	Contested the idea that only ethical mutual funds operate in an ethical manner. emphasized the importance of full disclosure and honest advertising. recommended that social investment organizations create an ethical code of conduct for ethical mutual

		funds. noted present deficiencies in fulfilling disclosure requirements.
Li (2015):	Investigated the growth of responsible investment in China.	It was discovered that China's responsible investing (RI) market is still developing. Saw growing support from a range of stakeholders, such as communities and customers, national and international organizations, financial and governmental institutions, and individual and institutional investors.

**CONCLUSION:**

The moral aspect of financial decisions has transformed from being a secondary consideration to a crucial element in shaping investment strategies. Investors are increasingly recognizing the importance of considering ethical, social, and environmental factors alongside the traditional focus on financial outcomes. The world is grappling with numerous complex challenges, including social inequality and climate change. Ethical investing serves as a powerful tool to drive positive change while also ensuring financial prosperity. Incorporating ethical values is not only a moral obligation in this modern era of investing, but also a strategic move towards a more sustainable and responsible financial landscape.

The article's conclusion asserts that ethics have undergone significant transformation over time, evolving from a secondary consideration to a pivotal element in shaping investment strategies. It emphasizes the growing recognition of the importance of ethical, social, and environmental factors in investment decision-making, alongside the traditional focus on financial advantages. In today's complex world, addressing pressing issues such as social injustice and climate change requires a thoughtful approach. Ethical investing offers a promising avenue to not only generate financial returns but also make a positive impact. The integration of ethical concepts is portrayed as a strategic move towards a more accountable and enduring financial landscape, rather than solely a moral obligation.

**SUGGESTIONS**

1. Promote the dissemination of knowledge on ethical investment principles to empower individuals to make informed decisions.
2. Facilitate accountability and investor trust by offering incentives for businesses to transparently disclose their ethical business practices.
3. Foster collaboration among industry, investors, and regulators to establish shared ethical standards and promote consistent conduct.
4. Incorporate Environmental, Social, and Governance (ESG) indicators into widely accepted financial reporting to achieve a comprehensive assessment of the ethical and financial position of businesses.

**LIMITATIONS:**

1. The study's findings may have limited relevance in broader investment settings, as they could be specific to certain contexts.
2. The accuracy of conclusions drawn from historical events can be influenced by subjective interpretations within the historical framework presented.

**IMPLICATIONS:**

This study emphasizes the significance of recognizing and integrating ethical considerations into financial strategy, which has important implications for investors and policy officials. The results underscore the importance of implementing a well-rounded approach that considers both financial benefits and ethical obligations for investors. This requires a shift in mindset and a profound understanding of the connection between ethical conduct and economic prosperity. These implications offer a foundation for policymakers to establish regulations that promote ethical reporting, transparency, and standardized operating procedures.

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