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Conceptual Framework of Ethical Investment

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ABSTRACT:

The term ethical investment is growing body of literature. It is concerned with assimilation of ESG (environmental, social and governance) factors with investment portfolio. The screening of investment can be done effortlessly simply by two criterions. Thus it is a practice of investing in companies which pass a series of 'negative' ethical criterion and satisfy positive ones.

Ethical investment encourages other firm to act ethically so that it can attract more ethical funds. As it considers environmental and society benefits, it can be universally applicable and has a good future scope. But still there are a lot of problems associated with it. To make its stern execution it is necessary for the investors to accept that there is a problem associated with their traditional investment and have to comprehend the conception of ethical investment.

Thus, this paper highlights concept of Ethical investment, its screening criterion and problems allied with it.

Key Words: Ethical Investment, ESG, Ethical Funds, Investors, Screening

INTRODUCTION

Ethical investment is moreover recognized as sustainable investment, responsible investment, green investment or socially responsible investment. With the objective of achievement of an aggressive financial return, it considers morality too. It describes the investment approach which seeks to maximize the financial return and social value. This is all about toning our moral values with investment decisions. Ethical investment is the practice of investing in companies which pass a series of 'negative' ethical criterion and satisfy positive ones.

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The concept of ethical investment is not new-fangled. In 18th century, this concept was started from religious group of USA. The investors from these groups avoided to invest in some companies which were affianced with “sin” Stocks like tobacco, alcohol, gambling, weapons etc. The scope of ethical investment is being escalating day by day especially in United States. “According to Social Investment Forum, 2001 estimates, about one in every eight investment dollars (13%) are now committed to ethical investment fund”. “While it is less significant in other national contexts, including the UK and Australia, investment patterns in both countries also point to an increasing trend of monies being placed in ethical funds” (Williams, 1999)

OBJECTIVES OF THE STUDY

- To study the concept of Ethical Investment.
- To study the investment screening criterion of Ethical fund.
- To study the problems associated with Ethical Investment.

RESEARCH METHODOLOGY

This study is descriptive in nature. Secondary data has been used for this study, collected through various journals, reports, websites, books etc.

ETHICAL INVESTMENT

According to Cambridge Dictionary, ethical investment is the “ practice of investing in companies whose business is not considered harmful to society or the environment”. When environmental, social and ethical considerations are incorporated by an investor while selecting investment portfolio, rather than focusing only on monetary benefits is considered as Ethical Investment. There may be two approaches of Ethical Investment, first one is related to avoiding investment in those stocks which are contentious and can harm environment & society such as tobacco, alcohol, drugs etc. and second approach is related to Investing in those companies which are positively contributing the environment & society such as minimizing pollution by scheming green transportation.

WHY TO INVEST ETHICALLY?

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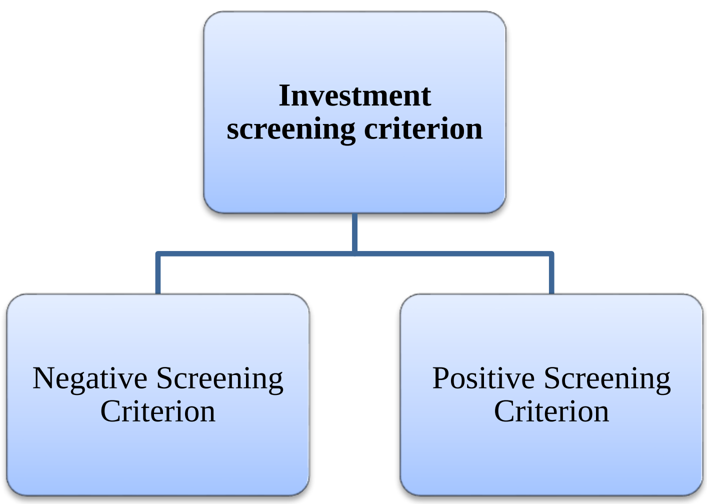
Ethical Investment reflects the value of investors which enhances their financial returns. Nowadays investor community realized that integration of environmental, social and governance (ESG) factors, in their investment portfolio is good for them. According to 2016 RIA report, 70% of female investors consider ESG factors important when making investment decisions and 75% of millennials agreed, they would pay extra for ethical investments. Beside this, ethical investment attracts other companies to do ethical practices so that it can grab more funds. Over time, economy will move towards sustainability. Investment in ethical companies gives a good feeling that money is being invested to benefit society.

INVESTMENT SCREENING CRITERION

To take decision where to invest their ethical fund, one may use investment screening criterion. There are two ways for selection whether investment is ethical: Negative screening criterion and positive screening criterion.



Negative Screening Criterion:

These criteria states that those companies should be avoided for investment which are producing 'destructive products' and are unethical. According to Cullis et al. 1992, these criterions serve as an indicator for the potential investors of what kind of business and activities the fund regard as ethical. It means excluding unethical companies from the ethical investment portfolio. For an example, companies producing tobacco, liquor, weapons etc must be avoided while making investment portfolio (Renneboog et al. 2008). Hancock 2003 said that "weapons are also used by international peace-keeping forces from NATO and UN to defend themselves, since there is a significant possibility that attacks will occur in regions where peace and stability needs to be kept". The following table depicts the Negative screening criterions commonly applied by ethical funds.

Negative Screening Criterions	
• Alcohol	• Nuclear power
• Military Contracting	• Tobacco
• Animal Testing	• Ozone depletion
• Fur industry	• Weapons
• Gambling	• Genetic Manipulation
• Suppressive regimes	• Labor rights
• Human Rights	• Child Labor
• Pornography	• Gambling

Source: www.viego.com

Positive Screening Criterion:

This criterion enables to select an ethical company where ethical fund can invested. That company may be selected for investment which makes a valuable contribution to environment and the society. In short, it is needed to invest the ethical funds in the companies which are positively contributing to the society. Michelson et al. 2004 said that, "Identifying ethically enviable firms is the aim of positive screens". As per this criterion, investment should be made in positive contributing ethical firms rather than excluding those firms which are harmful for the environment. For an example, a firm which is engaged in minimizing pollution or producing those products which is beneficial for the society is the ethical firm. The following table shows the Positive screening criterions commonly applied by ethical funds.

Positive screening criteria
Innovative products that are beneficial for the environment
Community involvement
Promoting corporate governance
Protection of the environment
Innovative products that are beneficial for the society in general
Countering bribery
Ensuring employee standards
Protection of human rights

Source: www.viego.com

In the words of Renneboog et al. 2008, "The oldest and most basic ethical funds mainly applied negative screening, but as the ethical investment practice developed, some funds started to apply positive screening as well. This is mainly because ethically concerned investors are coming round to the view that it is as important to support the good companies, as it is to boycott the bad".

PROBLEMS WITH ETHICAL INVESTMENT

With the growth of Ethical investment, there are a certain number of problems associated with it which is still needed to be addressed. As this concept is still ambiguous, people do not know

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what exactly Ethical Investment is? Some commentators said that the investors who are investing their ethical fund with a company, who acts ethically, get failed to support those companies which are contributing in economy up to a great extent. Most of the people want to get maximum benefit from their investment they have nothing to do with ethics. They do not take Ethical Investment seriously. In order to make its severe implementation it is necessary for the investors to be swayed that there is a dilemma allied with their traditional investment and has to understand the concept of ethical investment.

CONCLUSION

This paper enhances the existing literature by addressing the general idea about Ethical Investment which is very important to study in a country like India. Ethical concept is not a new concept but still in vague. When an investor considers ESG factors while making his investment portfolio, is Ethical investment. It encourages the moral value in the society. But it is a debatable issue that "Does ethical investment actually pays?" as it has major advantages and disadvantages both. This paper only constitutes the conceptual frame work of Ethical investment.

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