

ETHICAL INVESTMENT: AN EMERGING BRANCH OF FINANCE FUNCTION

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Abstract

Ethical investing gives individuals the power to allocate capital towards companies that are in line with their personal views, whether they are based on environmental, religious or political precept. Investors should keep in mind that "ethical" does not imply "outperform." A good way to start with an ethical investing policy is to write down the areas you want to avoid as well as where you want to see your money invested. From there you can come up with an asset allocation plan and begin researching individual securities and funds. The concept of ethics in finance has recently become a momentous issue and the objectives of this paper is to disclose the value and the importance of ethical investment in this contemporary era of human life

Key words: Ethical Investment, Asset allocation, Augmented Prominence.

INTRODUCTION

Ethical investment-or socially responsible investing-is part of a broad range of trends relating to social and environmental awareness in society. It relates to savings and investments. It has come to public focus due to increasing awareness of the important role that financial institutions play in the global economy.

Ethical investment is about investors taking ethical, social, environmental criteria into account while making investment decisions. "Investment" here primarily refers to investment in stocks, as ethical investment is mainly concerned with how investors through their shareholdings can contribute to moving corporations towards more accountable and sustainable business practices. This is usually accomplished through either negative or positive screening of investments, shareholder activism or targeted investments. Ethical investors can be individuals or institutions. Institutions can be investment companies or public or private sector pension funds.

Objectives of the study

- 1) To know the concept of ethical investment
- 2) To study the fundamental principles of ethical investment
- 3) To identify ethical and unethical investments

CONCEPT OF ETHICAL INVESTMENT

Dictionaries list several definitions for the word "ethics." The primary definition is a system of moral principles, and a secondary definition is that it is the rules of conduct as used by a specific group or culture. The term ethics is the branch of philosophy dealing with values relating to human conduct, with respect to the right and wrong of certain actions and their respective motives and consequences.

It is necessary to understand the concept of ethical investment because for many, the concept is not yet clear. It is an investment which benefits the society at the maximum level both short run and long run. Ethical investment is not constraint to an individual, time, group but the value can be created which benefits utmost, for maximum level of communities both in short run and long run.

Almost across the globe many of us learn the moral values from the religious teachings, because we believe that the scope of human being to understand the world logically is so limited and though the needs of human beings insist for the unethical activities. Almost all the religious teachings across the globe on ethics are similar.

There is a great deal among investors, companies, NGOs and academics on what exactly constitutes 'ethical investment', or 'socially responsible investment', as it is more commonly known in the US. The terms are often used interchangeably with, or as an umbrella term for various types of sustainable or responsible investment. If one key, obvious source for this lack of consensus is disputes over what an 'ethical' standard is, another, less obvious source is the propensity of early ethical funds and advisors to *differentiate* their products from those of others.

As a modern concept, the term 'ethical investment' is usually used to mean the integration of ethical values and social and environmental considerations into investment decisions, rather than basing such decisions solely on financial calculations (expected risks and returns).

Responsible investment helps people to invest in line with their values and their financial needs. However, investors are hampered by the fact that there's no single definition for what can be called 'ethical', 'sustainable', 'socially responsible' or 'socially responsive'.

FUNDAMENTAL PRINCIPLES OF ETHICAL INVESTING

The terms "ethical investing" and "socially responsible investing" are often used interchangeably. Other terms that we may hear include "mission investing" or "sustainable investing" or even simply "responsible investing." All of these approaches are based on selecting investments from companies who make positive contributions to the world we live in, while avoiding certain practices that may damage quality of life. Let us observe the following principles:

1. Screen for ethical and socially responsible companies we can respect.

Most ethical investors would never consider operating a casino, owning a liquor store or profiting from military weapons. We believe a sound investment considers the social and ethical consequences. That's why we incorporate values into our investment management process. In addition to traditional financial and quantitative analysis, we exclude companies with significant revenues from alcohol, tobacco, meat, gambling, pornography and interest-based banking.

2. Make investor voice heard on corporate governance matters.

Being the owner of the organization one should raise their voice for good corporate governance matters.

3. Strive for financial freedom for ourselves.

Our ethical investment philosophy considers the social consequences of investments within the context of rigorous financial analysis. Our products reflect our belief that to strive financially, we must behave responsibly with our finances.

4. Leverage our generosity to benefit charitable causes for a brighter tomorrow.

We believe that charity giving is an important pillar of ethical investing. As we build wealth for ourselves and our families, we believe in giving back to build a better world. Discover how we can give our wealth and a mission with tax smart charitable giving, whether we give through a donor or adviser, a trust or a foundation.

How to choose ethical and avoid unethical Investments

Majority of the investors will look for the following from their investment outlets.

- 1) Outlets which provides good returns
- 2) Outlets which are safe and secured
- 3) Outlets which are ethical and legal

While choosing ethical outlets one should follow the following two steps.

- 1) Avoid unethical investment outlets/ channels. It can be done by following simple steps.
 - i) Avoid causing illness, Disease and Death
 - ii) Avoid destroying or damaging the environment
 - iii) Avoid treating honest people with disrespect
- 2) Selecting positive ethical investment outlets/ channels. We can consider the following two types of investment outlets as ethical.
 - i) **Socially responsible investing:** Companies are generally screened out if they take part in excluded activities, but may be included if their commitment to social responsibility outweighs the negative aspects.
 - ii) **Sustainable investing:** Investments are chosen on the basis of how well a company manages environmental, social and corporate governance factors, not on what the company makes or sells.

Ethical investments in India

Ethical investment today investor plays a prominence role in meeting the social responsibility. In India the investors are aware of the social responsibility towards the nation and fellow members. Today investors are willing to invest for long term in the organizations that contribute positively to sustainable development and environment position. In India companies such as ABN Amro launched first India's SRI Fund. Global Index provider Dow Jones Indexes and Dharma investments, a private investment company, in Jan, 2008

announced the launch of Dow Jones Dharma Index of measuring the performance of companies selected according to the value system and principles of Dharma religions. This index has been put together by wall street. The stocks will be screened on Industry, environmental and corporate governance parameters to meet the sustainable development before being included in the Dharma Indexes. The Index constituents would be reviewed on quarterly basis.

CONCLUSION:

Socially responsible investment is generally inter-changeable with ethical investment regarding both the structure and definition themselves. The concept of ethics in investment decisions is not new to the financial world and it is applicable equally for all types of investors. Now at this age of rapid development, investors are aware on the part of their responsibilities, even though there is need to focus much on ethical investment. Ethical investing depends on investors views; some may choose to eliminate certain industries entirely or to over-allocate to industries that meet the individual s ethical guidelines. A good way to start with an ethical investing policy is to write down the areas you want to avoid as well as where you want to see your money invested, from there you can come up with an asset allocation plan and begin researching individual securities.

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