Doing Well Through Doing Good: Is The Ethical Investment Movement Truly 'Ethical'?

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Abstract

Unsurprisingly given its nomenclature, there exists within the ethical investment industry an implicit assumption that its investment practices and products are - by their very nature - intentionally ethical. This thesis challenges this assumption, refuting the notion that the Socially Responsible Investing (SRI) ‘movements’ are always ethical. I justify this refutation through concluding that actions within these movements may only be deemed as truly 'ethical' if they are: (i) underpinned by ethical motives and (ii) have an ethical impact. I go on to argue that investors and/or companies choosing to engage in these ethical investment movements have, by definition, heightened ethical obligations, which are only satisfied if both aforementioned conditions are met. Throughout the paper, I challenge the ethical validity of these movements by investigating instances where either the motive or the impact can be called into question, ultimately concluding that 'ethical' investment practices are not always as ethical as initially portrayed.

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Abbreviations

AUM	Assets Under Management
CSR	Corporate Social Responsibility
EMD	Emerging Market Debt
ESG	Environmental, Social and Governance
ETF	Exchange Traded Fund
EU	European Union
IIF	Institute of International Finance
MNC	Multinational Corporation
NGO	Non-Governmental Organisation
NYSE	New York Stock Exchange
ROA	Return on assets
SEC	Securities and Exchange Commission
SRI	Socially Responsible Investment
UNPRI	United Nations Principles of Responsible Investment

Introduction

The focus on Socially Responsible Investing (SRI) within developed financial markets is not new. Such investment practices can be traced back to the 1980s and 90s in response to growing intrigue surrounding Corporate Social Responsibility (CSR), as companies began to realise how a lack of social and environmental governance could have a negative impact on their operating performance and ability to attract outside capital. This was realised on the back of a spate of corporate scandals, including the Shell oil spills, Nestlé's controversial distribution of baby formula, and concern over child labour practices at Nike. Although immediate responses were motivated by a desire to reduce negative publicity, they set the foundation for more advanced perceptions of the ethical responsibility of businesses. Naturally investors began to consider what these effects might mean for their investment portfolios. While SRI arguably originated in North America, these investment practices quickly spread across Europe, and soon the topics were being widely discussed across corporate, governmental, and academic spheres of influence.

Since 2009, the emphasis on ethical investments and practices has accelerated due to an increase in public awareness of matters of social justice. Concerns surrounding corporate and investor responsibility have come to the fore, fed by anger at the devastating consequences of the financial crisis and exposure of numerous cases of misconduct. In the financial services industry, in particular, regulators exposed abusive mortgage product practices, as well as widespread manipulation of interest and foreign exchange rates. Combine this with reports of greenwashing - conveying false information for financial gain - and we begin to paint a picture of investors and companies in an ethical crisis. The wider reverberations are such that these market participants are now being much more closely scrutinised for their activities, and judged accordingly.

In this context, it is perhaps unsurprising that SRI movements have grown in prominence. Asset managers and corporations, keen to assess the impact of such initiatives, often use Environmental, Social and Governance (ESG) metrics to gain a holistic view. Environmental criteria critique energy use, pollution and sustainability. Meanwhile, Social criteria investigate matters concerned with worker welfare, human rights, animal welfare, diversity, and respect for the communities that they operate in. Finally, from a Governance perspective, the focus is on management structure, abuses of power, conflict of interest management, employee relations and transparency.[1]

In the context of SRI, specifically, ethical investments may be defined as *"*a set of approaches which include social or ethical goals or constraints as well as more conventional financial criteria in decisions over whether to acquire, hold or dispose of a particular investment*"*.[2] The capital markets today contain a growing number of investors who have adopted such an approach in order to do good, or at the very least avoid doing harm. Their investment strategies range from negative exclusionary policies, to strategies that seek positive socio-economic and environmental impact. On the face of it, these investment strategies, either inclusionary or exclusionary, have an ethical objective in mind, but we should perhaps challenge the assumption that this is the true driving force behind such approaches, questioning instead if asset managers' financial performance is the true driver and motivation. Similar debates have ensued regarding whether or not ethical considerations should be the driver at all.

Other discussions have considered the role that CSR plays within the ethical investment movement. The European Commission has defined Corporate Social Responsibility (CSR) as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".[3] CSR and SRI are inextricably linked, as companies are reliant on investors for financing and equally investors are reliant on companies for disclosure of information pertaining to their performance and strategy. For that reasons CSR is somewhat important within discussions of SRI, and is thus mentioned at intervals throughout this paper.

The growth in ethical investments has seen ethical contemplation, which started in the equity space, shift over to also affect the debt markets which have demonstrated exponential growth in ethical products. The total value of the ethical markets has reflected this, with socially responsible investments making up a higher percentage of all money under professional management, to the point where anyone may realistically find a product that reflects their values.[4]

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[1] Robeco.com (2019). *ESG definition*. [Online] Available at: https://www.robeco.com/uk/key-strengths/sustainability-investing/glossary/esg-definition.html
[2] Cowton, C. J. (1999). Playing by the Rules. *Business Ethics: A European Review* 8 (1) pp. 60-69.
[3] European Commission. (2001). Promoting a European Framework for Corporate Social Responsibility. *European Commission Green Paper.* pp. 4 [Online] Available at: https://www.europarl.europa.eu/meetdocs/committees/deve/20020122/com(2001)366_en.pdf
[4] McVeigh, P. (2000). New Year's Feast: Social Mutual Fund Review for 2000. *Business Ethics.* 14(1) pp. 26-28.

Emphasis on ethical practices has similarly brought about growth in corporate ethics programs, with subsequent focus on corporate social responsibility being of particular interest. This focus on CSR is hardly surprising given the fact that ethical spending, on the commercial side, has rocketed due to increased demand for ethical consumer goods and services.[5]

With trends predicting that ethical investment capital is likely to continue its current rapid trajectory, it becomes increasingly necessary to critically examine how this movement has emerged, and how it operates in practice, whilst seeking to identify the potential ramifications this may cause, in order for us to understand what this means from both an economical, as well as philosophical standpoint. It is perhaps also crucial that we debate whether the growth in SRI emanates from a place of genuine societal concern, or instead, whether it represents simple opportunism by all participating agents.

Academic material has, however, arguably been somewhat slow in discussing and debating the motives, impacts and wider importance of this seismic shift. As such, the role of ethics and social responsibility within business remains a somewhat contentious issue amongst philosophers and economists alike.

Over the course of this thesis, I will challenge the assumption which lies at the very heart of the ethical movement: namely that the 'ethical' investments and practices embodied by SRI are, in fact, ethical. I believe that it is important that we challenge this integral assumption, in order to determine whether relevant market participants are acting as ethically as they should, or simply engaging in financial opportunism.

In this context, this paper argues that actions within the SRI movements may only be deemed as truly 'ethical' if they: (i) are underpinned by ethical motives and (ii) have an ethical impact. Moreover, I will argue that investors or companies choosing to engage in these ethical investment movements have, by definition, heightened ethical obligations, which are only satisfied if both aforementioned conditions are met. Throughout the paper, I challenge the ethical validity of this movement by exposing instances where either the motive, or the impact, can be called into question. I focus my attention on the emerging markets, in particular, using them as a medium through which to explore the reasons and usages behind such developments. I ultimately conclude that 'ethical' investment practices are not always ethical.

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[5] Co-op. (2013). *Ethical Consumerism Report*. [Online] Available at: https://www.ethicalconsumer.org/research-hub/uk-ethical-consumer-markets-report

My thesis will be structured as follows: Chapter 1 will seek to assess what may qualify as an ethical action in relation to ethical investment movements; Chapter 2 will ask what ethical duties or obligations can be expected of market participants; Chapter 3 will assess what the motivations are behind the adoption of ethical practices, challenging whether or not they are driven by moral principles; Chapter 4 will inspect examples of ethical failures, particularly within the emerging markets; lastly, Chapter 5 will evaluate whether the heightened ethical obligations are being met, whilst providing examples of possible solutions to such ethical failures. By addressing some of these pertinent points, I hope to offer support to my refutation of the initial assumption that the actions demonstrated within ethical movements can always be classified as ethical.

Chapter 1.

Ethical Theories

In this chapter, I will explore how two of the main ethical systems of deontology and teleology tie into my conceptualisation of the term 'ethical'. The conclusions I draw allow me to settle upon a working definition of ethical action, in relation to ethical investment movements, as being a behaviour which is underpinned by both ethical motive as well as ethical impact.

Section 1.1: Deontological Theories of Ethics

Deontological ethical theories place emphasis on the decision or action itself, focussing on the ideals, motivations, or principles underlying the action, rather than the consequences of that particular action. They argue that principles, usually thought of in terms of rights or duties, should determine how we should typically act in a given scenario and thus whether an act is ethical.

Kant, for example, has argued that an act is morally sound if it adheres to three principles (termed collectively as 'The Categorical Imperative'). The first is that we should "act only on that maxim through which you can at the same time will that it should become a universal law".[6] The question is, then, how an individual might reasonably know if they can will their maxim as a universal law. The answer that Kant provides is based on testing the subject, to figure out if the will can be exercised free from contradiction. In other words, if the action were to be established universally, would it still operate in a similar fashion, or would it lead to undesirable interactions? The second principle states that we should "act in such a way to treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end".[7] Finally, the third principle - the formula for autonomy - states that duty should not be thought of as being heteronomous, because "there can only be one condition why human beings

[6] Kant, I. (1948). *The Moral Law or Kant's Groundwork of the Metaphysic of Morals*. trans. H. J. Paton, London: Hutchinson. p. 88.
[7] Kant, I. (1785*). Groundwork of the Metaphysics of Morals*. In Elizabeth Schmidt Radcliffe et al, Late Modern Philosophy Essential Readings with Commentary. Blackwell. New Jersey. p.96.

must obey the moral law, and that is that we give that law to ourselves".[8] In other words, moral obligations are unconditional.

If we are to apply this in the context of ethical investment movements, we might argue that an action is unethical if we would not wish it to become a worldwide practice. An example of this would be when investors use the tagline of 'ethical' within the name of their fund with the sole intention of attracting capital. Similarly, Korsgaard applies the second principle to condemn individuals, as well as institutions, who use tools to deceive or coerce people to act in a manner which may violate their free choice.[9] By contrast, if market participants honour their promises and act with honourable intention, adopting such dynamics as a widespread maxim, then this would be more ethically favourable.

Bowie applied the notion of universalisability to a business ethics context, exploring the role that contractual agreements play in our interactions. Bowie envisaged a maxim which exhibited infringements of contract, suggesting that to do so would spell the end of contracts. He concluded that a universal maxim that sanctions breaches of contract would be practically untenable.[10] Contracts, and associations with trust, are what underpin ethical movements, where there is an expectation that commitments will be honoured. Those engaging in SRI can, in the majority of cases, be seen to adhere to the categorical imperative, however they do not always seem to. O'Neill points to instances of false consent, when "the consent does not match the activities it supposedly legitimates".[11] The basic moral duty of participants engaging in SRI can then be thought of as abiding to contracts, through acting in an honest and transparent manner, whereby obligations are fulfilled so that the prudential guidelines of the categorical imperative are adhered to.

Altman has been vocally critical of attempts to apply Kantian constructs to business ethics, contending that companies lack the capacity to reason and do not act with intentionality and so should not be held morally accountable. Thus, in his view, only individual persons can be perceived as moral agents.[12] French, however, convincingly disagrees, arguing instead that

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[8] Korsgaard, C. (1996). *Creating the Kingdom of Ends*. Cambridge University Press. p.23.
[9] Ibid. 17
[10] Bowie, N. E. (2017*). Business Ethics: A Kantian Perspective*. Minnesota: Cambridge University Press. p.16.
[11] O'Neill, O. (1989). *Constructions of Reason: Explorations of Kant's Practical Philosophy*. Cambridge and New York: Cambridge University Press. pp. 107-108.
[12] Altman, M. C. (2007). The Decomposition of the Corporate Body: What Kant Cannot Contribute to Business Ethics. *Journal of Business Ethics*. 74 (3). pp. 253-266.

companies can be considered to be intentional actors, thereby making them actors with moral responsibilities.[13] By the very fact that they will often have some form of internalised decision-making framework, French contends that this is reason enough to ascribe them with a degree of moral agency.[14] Soares further substantiates this by arguing that companies can be considered to have moral responsibilities due to their ability to reason rationally and act with intentionality, whilst being capable of responding to internal and external challenges.[15]

Yet while deontological theories have convincingly argued that intent and motive are crucial in determining whether an action is ethical, they do not give sufficient consideration for the impact of such actions, which is often critical.

Section 1.2:
Teleological Theories of Ethics

Teleological moral systems, in contrast to deontological theories, focus primarily on the consequences - or impact - of an action. Initially formulated by Jeremy Bentham, before being developed further by John Stuart Mill, utilitarianism is an example of a teleological theory that contests that the foundation of morality is the ‘greatest happiness’ principle. According to this principle, actions are right insofar as they maximise happiness; or conversely wrong, if they have the adverse effect.[16] This is a form of consequentialist thinking, as the morality of an action is determined based on the consequences rather than intent. Consequentialists will insist that the motive affecting an action cannot intrinsically change the rightness of such an action, with commentators such as G.E. Moore concluding in no uncertain terms that “right and wrong depend solely on consequences” whilst not depending at all on motives.[17]

There are two primary forms of utilitarian thought - act utilitarianism and rule utilitarianism - and a third, newer form, which I shall be discussing later, that seeks to combine teleological and deontological systems.

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[13] French, P. A. (1997). Corporate Moral Agency, in *Blackwell Encyclopedic Dictionary of Business Ethics*. ed. Patricia Werhane and R. Edward Freeman. Cambridge. MA: Blackwell. pp. 148-51.
[14] Ibid. pp. 148-51.
[15] Soares, C. (2003). Corporate Versus Individual Moral Responsibility. *Journal of Business Ethics*. 46 (2). pp 143-150
[16] Darwall, S. (2003). *Consequentialism.* Oxford: Wiley-Blackwell.
[17] Moore, G. E. (1912). *Ethics*. New York: Oxford University Press. P182-90

Act utilitarianism involves the ordering of situations from best to worst, followed by action, whereby the agent in question will opt for the highest-ranked situation, in order to generate the best overall outcome, which produces the greatest amount of 'good'.[18] The prevailing wisdom would suggest that companies and investors will hold the belief that the more 'ethical' products they sell, the happier said customer or client will be. This, however, fails to account for unforeseen outcomes, variability of products, as well as general unexpected or unintended consequences.

Rule utilitarianism differs from act utilitarianism insofar as it chooses rules based on the actual, rather than expected, consequences. As Brandt notes, however, the intrinsic value of an action may not be preferable, in terms of being able to achieve the greatest good, in which case it may become necessary to explain the rationale for observing the rule being actioned, even if it is deemed to clash with that actor's self-interest.[19]

Utilitarianism, on the one hand does offer us a concise theory by which to evaluate ethical actions, however, on the other, it could certainly be argued that it seems to be too reductionist, and perhaps should not be so quick in ignoring intention.

Section 1.3:
Motives and Impacts

Having discussed the deontological and teleological ethical theories, I feel I must stress how political philosophers have long seemingly accepted a dichotomy between these two ideas, generalising the debate as "consequentialist" versus "deontological" perspectives of ethics, presenting them as mutually exclusive. The substantive point of conflict is, however, difficult to identify, thereby leaving the nature of the conflict up to interpretation. Whilst some political philosophers may perhaps argue that this disagreement is merely a matter of definition, that is to say they are fundamentally talking about different things, others may instead argue that there can be considered a form of agreement in relation to a previous definition of morality from which these separate definitions are derived, which might instead explain the conflict. Recently, however, efforts have been made to bring these two schools of thought closer together, to prove that they are interconnected. We are now starting to witness a significant shift towards normative theories

[18] Scheffler, S. (1982). *The Rejection of Consequentialism: A Philosophical Investigation of the Considerations Underlying Rival Moral Conceptions*. London: Oxford University Press.
[19] Darwall, *Consequentialism*, pp. 232-33.

that might reasonably attempt to merge the two pre-existing theories. My argument will seek to unify these theories and to apply this conceptualisation to ethical investing.

One of the more famous recent attempts to combine deontology and consequentialism came in the form of Derek Parfit's much anticipated work '*On What Matters*'. In this three-volume book of moral philosophy, Parfit defends the idea of an objective ethical theory, suggesting that there are reasons for why we act in a certain manner, that may not be accounted for by traditional subjective ethical theories. This overarching moral theory, seeking to combine Kantian deontology, consequentialism, and contractarianism, argued that these aforementioned theories should be thought of as converging, not disagreeing. This point was further emphasised by Parfit's metaphor for moral realism, which argued that the three predominant categories of views are essentially "climbing the same mountain on different sides", converging on the same answers to moral questions.[20]

Parfit's objective ethical theory emerged as a result of his belief that there are true answers to life's moral questions, in so doing likening moral philosophy to mathematical simplicity. He believed that humans can reasonably perceive of such truths, through the use of critical reasoning and intuition, arguing further that they remain true even if humans perceive of them or not. Parfit was adamant that a world without objective moral truth would be a bleak place where nothing truly mattered and was disturbed by the thought of its absence. In order to prove that the perceived differences between the theories were only an illusion of perspective, Parfit took aim at Kant's Universal law, which claims that "I ought never to act except in such a way that I could also will that my maxim should become a universal law".[21] Parfit chose to reformulate the 'law' to "everyone ought to follow the principles whose universal acceptance everyone could rationally will". He subsequently argued that such principles would be identical in nature to those espoused by rule consequentialism.

From this position Parfit was then able to introduce to us his overarching 'Triple Theory', which stipulated that: "An act is wrong just when such acts are disallowed by some principle that is optimific, uniquely universally willable, and not reasonably rejectable". Parfit referred to this as the 'Triple Theory' because he believed that the theory's principles were: consequentialist, due to the fact that they would produce an optimal outcome (optimific); Kantian, due to the principles

[20] Parfit, D. (2011). *On What Matters*. Volume 1. Oxford: Oxford University Press. p.419
[21] Kant, I. (1993) [1785]. *Grounding for the Metaphysics of Morals.* pp. (4):421

being universally willable; as well as contractualist, due to the fact that no individual could reasonably reject them.[22]

Iain King is another commentator who has tried to bridge the gap between deontology and consequentialism. He does this through the use of quasi-realism, as well as a variation of utilitarianism in order to establish deontological principles, which he views as being compatible with ethics based on consequences. King makes the bold proclamation that, more often than not, a consequentialist ethical system requires forms of deontological rule in order to operate effectively. Similarly, he suggests that it is plausible for us to contrive of a deontological system which incorporates a series of aptly motivated consequentialist outcome estimations. In doing so, King reaches the conclusion that ethical systems of all kinds are both consequentialist as well as deontological. As such, he believes the aforementioned dichotomy to be flawed as neither depicts a fundamental difference in kind which cannot reasonably be bridged.[23]

The central argument that King presents is that many deontological theories are at least partially interested in the consequences of the action taken. One of the principle duties of Rossian consequentialism, for instance, is "beneficence", which can be thought of as a duty to maximise the pleasure of others. Deontological theories invariably do not disassociate themselves from concerns surrounding whether or not we ought to bring about a just state of affairs, just as consequentialist theories do. I do believe, however, that such examples aren't in essence combinations of deontology and consequentialism, but rather adapted versions of either one or the other. This proves to be problematic as rather than unifying the concepts, which I believe was King's initial objective, he merely alludes to the interconnected nature of the two. As such, I believe that King could have brought the two concepts even closer together, to the extent where they could be argued to be truly unified, instead of settling for a weaker interdependent relationship.

Other such writers who question the dichotomy, who I shall briefly mention, include Shelly Kagan, Thomas Scanlon and Robert Nozick. In her work 'The Structure of Normative Ethics', Kagan argues that consequentialism, virtue ethics and deontology are in principle compatible.[24] Scanlon, in order to make a similar point, presents us with the example of human rights, which are

[22] Parfit, *On What Matters*, p.413, 419.
[23] King, I. (2008). *How to Make Good Decisions and Be Right All the Time*. United Kingdom: Bloomsbury Publishing.
[24] Kagan, S. (1992). The Structure of Normative Ethics. *Ethics* Vol. 6. pp. 223-242

widely accepted as being a "deontological" construct, but may only be justified with reference to the consequences of having such rights.[25] Nozick presents yet another viewpoint, arguing for a theory which is mostly consequentialist in nature, but incorporates inviolable "side-constraints", the existence of which act to restrict the permitted actions of a particular agent. It is clear that prominent philosophers are beginning to question the mutual exclusivity of deontological and consequentialist theories, and thus there seems to be clear precedent for what I am arguing.[26]

Motive utilitarianism is a unifying concept which - to some extent – might satisfy my definition of ethical action, valuing both the motive, as well as the eventual impact of an action, through drawing connections between the morality of motives and the morality of actions.[27] Motive utilitarianism, first articulated by Robert Adams, stipulates how intention and action are concepts which, if viewed separately, could prove to be ethical or not, and even in instances where they can both be considered ethical, may not necessarily be aligned, resulting in a degree of incompatibility.[28] According to motive utilitarianism, we should select motives according to their general felicific effects, these motives then dictate our actions. On occasion, however, motives can be intrinsically good, bringing utility to others, whilst the act which occurs in conjunction with the motive can be considered unethical. Whilst ethical motives can result in unethical actions, sometimes the motives themselves can be unethical in nature, even if wrapped up and presented as ethically good behavior, which in turn leads to the suboptimality of subsequent action. This suggests that neither motives nor consequences are the dominant factor in establishing ethical practice, but that both elements need to be taken into consideration.

Whilst motive utilitarianism does use motive as the central point of evaluation, approving that motive which yields the optimum utility, questions remain as to whether or not motive utilitarianism professes a deontic view regarding the moral rightness or wrongness of an action. In its original format it simply acted to judge the goodness or badness of any particular motive, arguing that the best motive is that which yields the greatest utility. This suggests that I may have to look further afield for an argument in favor of the deontic relevance of motives, which may prove sufficient in order to ratify my definition of ethical action.

[25] Scanlon, T. M. (1977). Rights, Goals, and Fairness. *Social Ethics*. 11 (1). pp. 81-95
[26] Nozick, R. Side Constraints. Chapter in: Scheffler, S. (1988). *Consequentialism and Its Critics*. Oxford: Oxford University Press. pp.134-142
[27] Foot, P. Utilitarianism and the Virtues. Chapter in: Ibid. pp. 224-243.
[28] Adams, R. (1976) Motive utilitarianism. *Journal of Philosophy*. 73 (14) pp. 467-481

Steven Sverdlik perhaps proves us with such a solution in his work 'Motive and Rightness', in which he focusses on the interaction between motive, deontic status, and consequence, discussing whether the motive of an action ever affects its deontic status. He argues that consequentialists should, in some circumstances, admit that motives can create a shift in an action's deontic status, therein taking the ideas of motive utilitarianism a step further.[29] Sverdlik provides a thought-provoking argument surrounding the deontic relevance of motives, which I will investigate further in order to judge whether his line of reasoning may feasibly be adapted to evaluate ethical investing.

Whilst motives do, of course precede any given action, they also maintain a presence throughout the implementation of said action. Motives are typically mentioned by way of expression as to why an agent acted in a manner that they did, providing a reason for said action. Ultimately, all intentional actions are built on the presupposition of a motive, with desire and emotion being the two primary factors which may affect such a motive. The question that Sverdlik is aiming to challenge is that of whether the motive for a particular action may be argued to affect whether such an action is morally right or wrong, proclaiming that in some circumstances it does. He points to four distinct examples of motives where such significance may be deemed to exist, arguing that his mentioned examples "show that motives not only can, but do make a deontic difference".[30]

The example that is most pertinent to my argument is that of the desire for money. While Mill argues that an individual choosing to save another from drowning is acting morally, regardless of whether or not they are motivated to do so "in the hope of being paid" for such an act, Sverdlik suggests otherwise. Sverdlik instead provides us with a counterexample, arguing that the same logic cannot be applied to the circumstance of someone having sex with someone else with their motive being "the hope of being paid", as in such a circumstance the agent would be perceived as acting wrongfully. If that individual were instead motivated due to a love of the other person, the act would no longer be perceived as morally wrong. Therefore, the motive is the differentiating factor which manages to change one action from being morally wrong, to being morally

[29] Sverdlik, S. (1996). Motive and Rightness. *Ethics* 106 (2). pp. 327-349.
[30] Ibid. 339.

permissible.[31] Sverdlik contends that this is not the only circumstance which may create a conflict due to the desire for money, as I shall explore in relation to ethical investing.

Consequentialists might object, arguing that instead of it being the motive that is making the deontic difference, it is rather the fact that the action occupies a position as part of a larger plan that we should be focussing on. So when it seems as if the desire for money, in the example provided, is what makes the act of sex with said person wrong, in actuality, the wrongness is, in fact, not determined from the act of having sex for that particular motive, but is instead determined by the act of asking for money, or from the compounding effect provided by both the act of having sex and the subsequent act of asking for money for it. As such, the action, in this case having sex, for a particular reason, is not in itself wrong, even if we are to conclude that the compound act in its entirety is regarded as wrong.

The response to such a statement is that when an individual has a plan in mind, regarding a set of connected actions, such a plan crucially constitutes the agent's intention, rather than their motive. If you can prove that the desire for money was the reason for having the plan, then it becomes deontologically significant. This does not prove particularly problematic as in most circumstances, the individual can achieve their intended aims in one fell swoop.

I believe that the logic applied by the 'desire for money' example may reasonably be applied to my arguments against the ethical validity of some, so-called, ethical investments. In such circumstances, the desire for money, so too, creates a dichotomy between what is morally wrong and what is morally permissible. If the motive for engaging in supposed 'ethical' action was disingenuous, that is to say its strict focus was the desire for money, without regard for ethical considerations, then this should be considered to be morally wrong. If instead, the motivation for the action was borne out of a genuine regard for societal concern, in whatever capacity, then this should be considered to be morally right. I believe this example to be particularly applicable as, in the case of ethical investments, motives have the ability to both change the intrinsic value of the action and change how the action is implemented, thus potentially having an impact on the consequences of the action. I believe that given the context, consequentialism may reasonably assert that motives have a degree of deontic relevance due to their extrinsic relations, and their ability to influence effects or consequences. As I shall discuss later in the paper, we may perceive

[31] Ibid. 340.

two actions as having identical consequences, yet accept a difference in their deontic status' due to a difference in their motive.

By pushing motive utilitarianism that little bit further, through the use of Sverdlik's argumentation regarding the deontic relevance of motives, we can close the gap between these ethical theories, allowing us to create a link between both motive and impact. In order to do that, I shall now discuss a thought experiment which hopefully demonstrates my point.

In Victor Hugo's historical novel 'Les Miserables', the main protagonist, Jean Valjean, chooses to steal a loaf of bread to feed his sister's starving family. Regardless of the extenuating circumstances conventional reasoning dictates that Valjean is guilty according to the principles of law, but it is nevertheless interesting to consider the ethical implications of his actions. I believe that both Kant and Mill would be in agreement with Valjean's actions in that his choosing to steal a loaf of bread should be considered the moral thing to do, given the circumstances. I think that Kant would argue that Valjean should be considered a moral human considering that the choice made was based purely on good will. Similarly, I believe Mill would say that the decision was a somewhat moral one; as he chose to maximise happiness by providing for his starving family. If he acted without good will, or failed in helping his family, then such an action could not be deemed ethical. In this sense I do believe that both motive and impact are shown to be inextricably linked.

In terms of Kant's focus on motive and the good will, an investment is 'ethical' if it was done out of pure intention of the good in itself. Therefore, if the investment was done for the benefit of the doer of the action, then the investment can be argued to have not originated from a place of good will. In this sense, an ethical investment may only be deemed as such if it were done because it was the right thing to do, not because it makes money, which fits in with Sverdlik's argument regarding the desire for money.

Under the Kantian ethical framework, motive supersedes duty in respect of the law, but only insofar as the desired intention adheres to the good will. That is to say, if Jean Valjean hadn't acted with good will and hadn't ended up providing benefit to others more than himself (in this case his family), then the original duty in respect of the law should not have been broken. If we now swap 'duty in respect of the law' with 'duty to the fiduciary' (Friedman's idea that there should be a strict loyalty to the financial interests of the principle, i.e. the shareholders), then we can argue that if an investor doesn't invest with good will and doesn't end up providing a 'good' outcome, then the original fiduciary duty, in terms of maximisation of returns, should not have been broken.[32]

The superseding of motive over respect of the law, I believe only holds if the correct outcome is delivered upon. If Valjean stole the bread with the intention of feeding his starving family, but then didn't succeed in doing so, then this should be considered as unethical, as in this case respect for the law should have been upheld. Context does, however, play a role here, as the morality of the outcome may depend on the existence of possible extenuating circumstances outside of the control of Valjean. For instance, if he did not succeed because of factors within his control, then that is one thing, however if he did not succeed because of a chain of events prohibiting him from doing so, then that is something altogether different. According to the principle of ought implies can, an agent has a moral obligation to perform a certain action only if it is logically possible to perform it: "for if the moral law commands that we ought to be better human beings now, it inescapably follows that we must be capable of being better human beings".[33] The best way to conceptualise the interaction between motive and impact then, would be to think of an action in terms of a compounding effect, whereby morality can be thought of as compounding throughout the lifecycle of the action, from motive to execution. The degree to which each element is fulfilled deems the degree to which the action may be adjudged to be ethical. The stronger the ethical motivation, and/or the greater the positive social or environmental impact, the more ethically praiseworthy the behaviour becomes.

Ultimately, not only would this aforementioned outcome be problematic in terms of the relationship between motive and the principles of law, but so too in respect of Mills' 'Greatest Happiness Principle', as the action not only didn't produce happiness (the family are left starving), but had the opposite effect in that the only result was that the owner of the loaf of bread was left deprived.

Linking back to ethical investing, I believe that both the deontological argument, that the ethical nature of an action depends on motive and willingness of individuals to act for the good of others, as well as the consequentialist argument, that the ethical nature of an action depends on the

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[32] Friedman, M. (1970) The Social Responsibility of Business is to Increase its Profits. *New York Times Magazine.* New York. (Friedman's much debated article sought to debunk the notion that investors and companies have a responsibility to increase social welfare, arguing instead that they should always act in the financial interest of the shareholders).

[33] Kant, I. (1793) Religion Within the Boundaries of Mere Reason. 6:50 pp. 94

eventual impact of said action, are both of upmost importance. The existence of one without the other is bound to cause an ethical dilemma, and thus while I do concede that in most circumstances of ethical adjudication, a dichotomy may be argued to be present, in the case of ethical investing, I believe the two to be inextricably linked. Investing for the right reason is important, but so too is the outcome of said investments. This also proves to be particularly important from a pragmatic point of view as such a definition cuts through much of the ambiguity that plagues the investment community, by clearly stating what can reasonably be expected from an 'ethical investment'. In practise, this means that ethical investments, which fit with my definition, should ultimately be thought of as investments "made into companies, organizations, and funds with the **intention** to generate **measurable**, beneficial social or environmental **impact**".[34] This quote succinctly manages to encapsulate what I have been trying to argue throughout this chapter, namely that each of these elements are important, interlinked, and when unified, manage to compound the level of morality of an action. Measurability plays a unique role in terms of adjudicating moral impact, as without measurability, the subsequent impact of an action is, naturally, difficult to assess. A key challenge for investors then, is the capacity to measure the intangible in impact investments. This kind of valuation challenge is one which impact investors have been grappling with for years. Organisations and projects aiming to deliver social or environmental impact currently lack a shared framework for measuring the value of what's actually been achieved. As impacts may only be considered to be positive, if they are demonstrable through hard, quantifiable evidence, then some form of industry-wide standardization needs to be implemented.

One possible solution has been built around the idea of calculating impact in dollar value terms. In a Harvard Business Review article published in January of last year, TPG Capital explained the methodology behind a new metric they have called the "impact multiple of money". They calculated, for example, that their Rise Fund was delivering $1.1bn in social value, with a 5x impact multile of money, essentially $5 for every $1 invested. This perhaps provides us with a scaleable solution in order to deliver real measurable outcomes.[35]

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[34] GIIN. (2017). *Annual Impact Investor Survey*. GIIN Publication Centre. New York. pp. 1, 58 (I chose to emphasize the words 'intention', 'measurable' and 'impact' within this quote as they pertain to my argumentation)
[35] Addy, C, et al. (2019) Calculating the Value of Impact Investing. *Harvard Business Review*. [Online]. Available at: https://hbr.org/2019/01/calculating-the-value-of-impact-investing

Impacts should predominantly be aligned with intentions, and this is achieved through the adoption of impact measurements throughout different parts of the investment cycle. Investors should first conduct due diligence in order to estimate potential impact. This is followed by an impact planning phase where they should choose appropriate data collection methods in order to analyse a program's subsequent effects. Once underway, the next steps will be to monitor and evaluate the impact.

When motivation and impact do not align, unstructured and inadequate measurement approaches are clearly the limiting factor in preventing the realization of potential impact. An example of this misalignment would be if a company is motivated to invest with ethical intention and yet such subsequent investments prove not to have any meaningful or measurable impact. I would argue that this company's behaviour is not ethically praiseworthy. This is due to my belief that motive and impact are inextricably linked, and, in the case of ethical investments, the deontological system requires consequentialism for its implementation. Consider, if you will, the deontological rule "create positive socio-environmental impact". Now consider the question of whether one ought to make a certain investment decision. In order to apply the rule of "create positive socio-environmental impact", I must know whether executing the investment decision will result in a positive impact. We must therefore know the likely consequences of an action in order to assess its desirability, and as such, motivations are conditional. I believe, as a result, that it is not inconceivable to construct a deontological system that combines a set of adequately motivated consequentialist impact measures; mandate a rule X, and then define an impact measure of whether X is adhered to.

In such instances, when a desired outcome is not achieved, then such an investment should not be categorized as ethical, but rather the opposite as it only results in the label "ethical investing" becoming diluted and merely used as marketing terminology. With all the will in the world, if nothing is achieved from an action, then should it be considered a desirable result, I would suggest not. The UN Sustainable Development Goals, for example were designed to solve humanity's greatest issues, if we didn't strive to achieve measurable results in tackling these pressing issues, then such action would be futile.

As long as the impact proves to be partially positive, then such action can be considered ethically praiseworthy. Whilst small investments may not be able to dramatically change market dynamics, with one company unlikely to be able to bring about significant ethical impacts on their own, displaying a lower value impact multiple of money, they do nevertheless contribute to the overall positive socio-environmental impact.

The arguments that I have presented throughout this past chapter have all sought to narrow the gap between deontological and consequentialist theories of ethics. The narrowing of that gap is important for my argument because my definition for ethical action is dependent on appealing to both forms of ethical theory. Thus, instead of making a distinction between them, I believe that in certain situations, in this instance within ethical investing, each should be deemed as important as the other. As a result, there need not be any degree of mutual exclusivity between the two concepts, thus legitimising my definition for ethical action within the ethical investment space.

Having arrived at a working definition for ethical action, I have defended the opinion that market participants may be viewed as acting in an ethical manner, if, and only if, they are ethically motivated, essentially that they are driven by a set of predetermined moral principles, as well as being perceived to be delivering an ethical impact.

Chapter 2.

Ethical Obligations

In this chapter I will outline what ethical obligations can be expected of companies and investors, before then exploring whether market participants engaging in the ethical movements should be expected to adhere to heightened levels of ethical obligation. Corporate Social Responsibility (CSR) practices are of upmost importance within investment analysis frameworks, and as such during the course of this chapter I shall be focussing not only on the ethical responsibility of investors, but similarly of companies, as both play an integral role within the ethical investment movement. This is because, financial markets require a sustainability approach that transcends and connects the approaches of companies prioritising CSR with the investor preferences of the SRI capital markets. There is a certain interconnectedness present, as sustainability efforts by each participant encourages participation on the part of the other, this is because it soon becomes apparent that such actions are mutually beneficial. As the markets show increasing levels of interest for both SRI and CSR, it would be amiss of me to mention the ethical actions of investors, without partially covering the sustainability efforts of companies.

Section 2.1:
Ethical Responsibilities of Companies and Investors

The role that corporations and investors play has unquestionably evolved over time, and their place in wider society has arguably never been more heavily scrutinised. In the past, the role and expectation of corporate social responsibility and ethical investing was certainly limited and thought of as an unnecessary luxury. Free market economists such as Smith, Mandeville and Friedman believed that corporations and investors alike should, to some degree, be left to their own devices, and that any stipulated requirements beyond pure profit-seeking activities would be asking too much of these market participants. Friedman, in particular, was opposed to the idea of social responsibility, and in the 1970s argued that the one and only true responsibility of business is to maximise profit. Any other enforced or expected responsibilities - for instance a focus on ethical action - would distract from the central focus of profit maximisation. In an article in the *New York Times*, for example, Friedman argued that calls for social and ethical responsibility on the part of business represented nothing other than a socialist attack on free market economics. He emphasised that any efforts to divert attention from a fixation on profit-maximisation were actions akin to stealing directly from the shareholders to which a company should be held accountable.[36] I believe that in Friedman's opinion, CSR would be costly to implement and these costs would, in all likelihood, outweigh the potential financial benefits, a point more recently emphasised by Waddock and Graves.[37]

Whilst commentators such as Friedman viewed social responsibility and profit maximisation as being mutually exclusive, CSR is in my view, and the view of many investors, imperative to ensuring long-term profitability. Indeed, as Argandona, Solomon and Mulligan correctly note, CSR should not be thought of simply in terms of representing adequate business practice, but as a fundamentally necessary activity in terms of making profit and thus, "[...] it may even have an important role in being in business at all*"*.[38] Beyond the defensive approach,

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[36] Hellsten, S. & Mallin, C. (2006). Are 'Ethical' or 'Socially Responsible' Investments Socially Responsible?. *Journal of Business Ethics*. Volume 66. pp. 393-406; Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits. *New York Times Magazine.* New York.
[37] Waddock, S. & Graves, S. B. (1997). The Corporate Social Performance - Financial Performance Link. *Strategic Management Journal*. 18(4). pp. 303-319;
[38] Ibid. 303-319; Argandona, A. (1991). Sponsorship and Charity: The Ethical Arguments. In B. Harvey, H. Luikjkvan, & G. Corbetta, Market Morality and Company Size*.* *Business Ethics* (pp. 41-54); Solomon, R. (1993).

companies are also beginning to seek out new opportunities where, for example, they exemplify positive moves towards ESG responsibility and are able to win over a new client and investor base.

Robert Edward Freeman builds on this view, arguing that CSR is the moral condition of the business' existence. He argues that managers should have a fiduciary relationship with stakeholders and therefore, the responsibilities of managers is to go further than the welfare of shareholders. In the view of Evan and Freeman, a strong relationship between managers and stakeholders can act to enhance adaptability to external influences on demand, which is crucial in maintaining operating performance.[39] When the firm's focus is on short-term performance, therein neglecting stakeholder interest, this can adversely affect market value in the long-run, and it is because of this that we realise the shareholder value maximisation alone, is not adequate.

Another famed economist who delved into matters of moral philosophy was Amartya Sen, who critiqued the narrow conception of individual economic rationality and, in so doing, managed to reintroduce the concept of ethics into the field of economics. In his work, 'Rational Fools', Sen likens "The purely economic man" with being "[...] a social moron", a comparison most likely shared by Polanyi who - in more wholesome terms - stipulates how human social behaviours are inherently influenced by factors beyond pure self-interest.[40] Contrary to Friedman, Polanyi argues that human interactions go beyond that of rationality maximisation, and are instead founded on a broad range of social emotions and motives.[41] In other words, humans have a tendency to cooperate and engage in reciprocity, certainly supporting the argument for SRI and CSR. In his work, Sen also introduces the concept of commitments, and the role that they play in terms of rationality within economics. He argues that individuals will rank preferences based on their underlying commitments to one another, as well as to affiliated groups. By describing connections in the way he does, Sen has rightly brought normative ideas into the discussion over decision-making in economics.

Business Ethics. In P. Singer , *A Companion of Ethics.* p. 361; Mulligan, T. (1988). A Critique of Milton Friedman's Essay 'The Social Responsibility of Business Is To Increase its Profits'. *Journal of Business Ethics.* Volume 5. pp. 265-269.

[39] Freeman, R. E. & Evan, W. M. (1990). Corporate governance: A stakeholder interpretation. *The Journal of Behavioral Economics*. 19(4): 337-359.

[40] Sen. A. (1977). Rational Fools: A Critique of the Behavioral Foundations of Economic Theory. *Philosophy & Public Affairs*. 6(4). pp.336.

[41] Polanyi, K. (2002). *The Great Transformation: The Political and Economic Origins of Our Time*. Beacon Press. Boston, MA.

Donaldson and Dunfee have elaborated on these ideas and developed the highly convincing Integrative Social Contract Theory. This theory posits that there is a form of implicit social contract between society and business, and that this social contract implies direct or indirect obligations of the business towards society.[42] Since this theory was introduced two decades ago, it has widely been acknowledged to be an encouraging attempt at constructing an actionable theory of business ethics.[43] The theory laid out by Donaldson and Dunfee points to a moral free space, occupying the void between the macro and micro-contracts, which implies that it is right and proper for an individual to pick and choose which community or grouping they wish to join, in order to establish clear rules which will be applicable to the members of such a community.[44]

The courts have also started to develop a more nuanced view of corporate and investor responsibility. At the landmark High Court case of Cowan vs Scargill in 1984, the court system in the UK ruled that trustees should invest based on financial criteria, void of any moral or ethical principles, very much adhering to the views of Friedman. Since the Harries v Church Commissioners for England trusts law case in 1991, however, judgements regarding the ruling on Cowan v Scargill have been somewhat tempered, as it was concluded that trustees and investors may freely base their investments on ethical considerations, if it can be demonstrated to not harm financial performance, or, alternatively, whether they make clear their intentions ahead of time, with the approval of the beneficiaries. Whilst the 1991 case does not necessarily overturn the 1984 case, it does, at the very least, present us with an interesting nuance of language and content, to the extent where we may interpret the ruling as suggesting that trustees may have objectives other than returns, provided that the investors have similar objectives other than returns.

Similar rhetoric was repeated in the 1993 Goode Report on Pension Law Reform, which interpreted the law to mean that trustees "[...] are perfectly entitled to have a policy on ethical

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[42] Donaldson, T. & Dunfee, T. W. (1994). Towards a Unified Conception of Business Ethics: Integrative Social Contracts Theory. *Academy of Management Review*. 19. pp. 252-284; Donaldson, T. & Dunfee, T. W. (1999). Ties that Bind: A Social Contracts Approach to Business Ethics. *Harvard Business School Press*. Boston: MA.
[43] Maya, D. and Cava, A. (1995). Social contract theory and gender discrimination: some reflections on the Donaldson/Dunfee model. *Business Ethics Quarterly*. 15(3): pp. 257-270; Rowan, J. (1997). Grounding hypernorms: towards a contractarian theory of business ethics. *Economics and Philosophy*. 13: pp. 107-112 & Rowan, J. (2001). How binding the ties? Business ethics as integrative social contracts. *Business Ethics Quarterly*. 11(2) pp. 379-390; Boatright, J. (2000). Contract theory and business ethics: a review of Ties That Bind. *Business and Society Review*. 105(4): pp. 452-466; Fort, T. (2000). A review of Donaldson and Dunfee's "Ties That Bind: A Social Contracts Approach to Business Ethics". *Journal of Business Ethics*. 28(4) pp. 383-387; Frederick, W. (2000). Pragmatism, nature and norms. *Business and Society Review*. 105(4) pp. 467-479.
[44] Donaldson, T. & Dunfee, T. W. (1999). Ties that Bind: A Social Contracts Approach to Business Ethics. *Harvard Business School Press*, Boston: MA.

investment and to pursue that policy, so long as they treat the interests of the beneficiaries as paramount and the investment policy is consistent with the standards of care and prudence required by law*”*.[45] The Law Commission for England and Wales again reiterated in 2014 that the 1984 case should not be viewed as precluding investors from engaging with ESG criteria when making their investment decisions.

Many of the more contemporary philosophical debates on the topic of the ethical responsibility are far from decisive, in part due to a lack of clear definition for both SRI and CSR, with Dahlsrud notably identifying 37 distinct definitions for the latter concept.[46] Considering this, it would perhaps be unwise to attribute companies and institutional investors as being agents of justice within our society. In recent years, the discussion has shifted to focussing more specifically on the responsibilities of stakeholders within the corporate hierarchy. These discussions have sought to judge whether or not CSR should be extended beyond the concept of economic responsibility to the shareholder and the basic legal responsibilities under which companies operate. According to Carroll, for instance, CSR should be thought of, not just in terms of a company's social obligations, emanating from legal and economic foundations, but to also account for ethical and discretionary/philanthropic obligations, a conceptualization which was presented by Carroll in the form of a pyramid of CSR.[47]

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[45] HMSO. (1993). Pension Law Reform. *The Report of the Pension Law Review Committee*. HMSO Publications Centre. London.

[46] Carroll, A. B. & Shabana, K. M. (2010). The business case for corporate social responsibility: a review of concepts, research and practice. *International Journal of Management Reviews*. 12(1) pp.85-105; Vogel, D. J. (2005). Is there a market for virtue? The business case for corporate social responsibility. *California Management Review*. 47(4) pp.19-45.

[47] Carroll, A. B. (1991). The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders. *Business Horizons*. July-August. pp. 39-48.

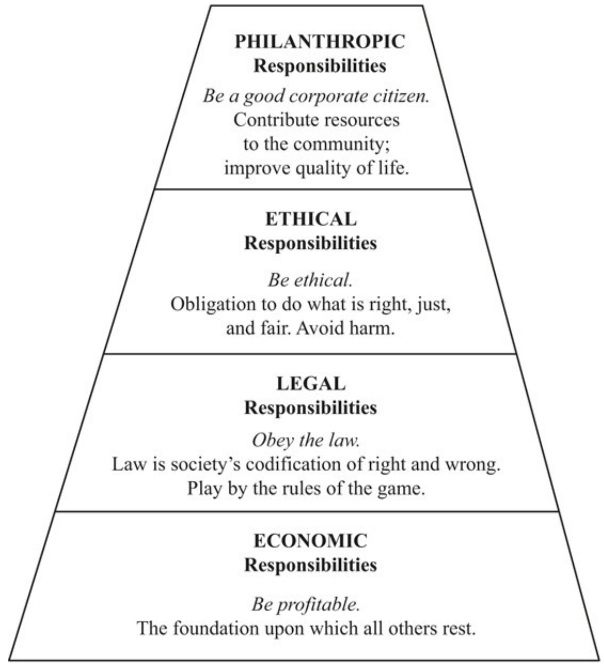

Figure 1. The Pyramid of CSR [48]

The pyramid, as depicted by Carroll, distinguishes four distinct levels of CSR. The first is that of financial responsibility, which is aligned with the view held by Friedman, and specifies that the fundamental responsibility of a company is to be profitable. Second-tier responsibilities can be thought of in terms of the legal responsibilities of a company, ensuring that they act in a manner which is in accordance with the law. Each level builds from the previous, as can be demonstrated by the fact that the first tier can be achieved without the need for the second. This is consistent with reality, whereby it may prove to be more profitable to pay a fine for a certain action than to fulfil the standards and requirements expected of the company. The next tier up from legal compliance is that of the ethical responsibility which can be reasonably expected by society. The highest level, atop the pyramid, is that of philanthropic responsibility, which, although not a basic expectation, is a key wish of society or of specific groups within a society. Without necessarily being considered to be a core operation of a company, whilst simultaneously not being as subjective as philanthropic responsibilities, ethical responsibilities occupy a middle-ground within the pyramid.

[48] Ibid. 42

It is likely, of course, that profit will remain the predominant motive within the investment, and wider business world, but this should not blind us to other peripheral responsibilities. Businesses and investors alike are learning that they can no longer expect to turn a profit in any manner they see fit, and while they will still seek to maximise their profits where possible, investors and corporations are acutely aware of the wider ramifications of their actions and choices. In order to adapt to modern business practices, we are steadily learning to incorporate elements of SRI and CSR as a way to appease both our profit-seeking economic responsibilities, as well as the ethical values of our client, customer and investor bases. If the tightwalk is properly navigated, then a trade-off between these competing forces can be eliminated.

Section 2.2:
Ethical Duties and Obligations of those engaging in SRI

At this point I will discuss whether market participants who are actively engaging in SRI should be subject to different, heightened standards in terms of ethical responsibilities, when compared with those who opt against such a strategy. Should companies and institutional investors who advertise their ethical values and social missions be held to more stringent ethical evaluations than their counterparts? Are they essentially accepting a higher level of social responsibility and buying into the third-tier of ethical responsibility obligation? I will argue that companies and investors are voluntarily entering into some form of social contract, whereby they accept a new ethical framework, in order to set themselves apart from their competition. By purporting to be acting in an ethical, socially righteous manner, these market participants have accepted that they will be held to a higher standard of responsibility, and will thus be more accountable for their actions.

By specifying that ethical activities go above and beyond the mere compliance responsibilities of financial performance and legal considerations, there may be a perfectly plausible argument to be made that no specific obligations can be expected of market participants to act in a certain manner. Another obvious counter-argument would be that these companies and institutional investors are not themselves purporting to be acting in an ethical manner, but are instead simply acting in a representative manner, satisfying the ethical requirements of their clients. By not claiming to be ethically motivated themselves, but reflecting the ethical values of others through supplying ethical products, they should not be held to additional ethical standards. A rather confusing dynamic ensues, whereby it becomes difficult to distinguish whether it is the products being provided to the clients that are purporting to be ethical, or whether it is the companies and investors themselves who are claiming to be ethical.

The glaring problem with this counter-argument is that institutional investors, by incorporating ESG metrics into their decision-making processes, are assessing the ethics of other companies, which essentially makes them a judge of ethical behaviour. By being in a position to judge others, such actors should themselves be held to a different ethical standard. By the very act of producing a product that claims to be 'ethical', thereby setting the product apart from more generic alternatives, means that the company or investors should accept that they will be judged in a similar fashion. If we also consider the fact that such investors have created a product or structure which purports to be 'ethical' in nature, choosing to name the product as such, then clients will have a belief and heightened level of trust in the ethical behaviour of those running the ethical product. The subsequent additional moral obligations can be thought of then as either emerging from wider societal concern, or in fact by the very clients to which they are accountable. Even if a commentator were to suggest that those engaging in SRI and CSR should not be held to a different, heightened ethical standard, then you might still argue that all wealth managers and corporations, not just the ones mentioned, still have a degree of ethical responsibility. The level of trust required within the financial industry in particular, due to the potential catastrophic ramifications of a breakdown in trust, is substantial, and because of this dynamic alone, perhaps a certain level of ethical obligation is necessary for all participants.

Based on the newfound logic that those choosing to engage in a socially responsible manner can be expected to have heightened ethical obligations, it becomes necessary to explore if these investors and companies are willing and able to execute such obligations, to the extent where they could be perceived to be acting ethically. In the following chapter I will investigate whether the current practices of market participants adequately reflect the first criteria of the revised definition for ethical action, namely, whether market actors are predominantly motivated by ethical desires or whether they are motivated by something else. If the latter proves to be the case, that motives are not wholly ethical, then we may be free to challenge the belief that such actors are acting in an ethical manner, and are therefore falling short of their obligations.

Chapter 3.

Factors Motivating SRI

In order to determine whether or not market actors are behaving in an ethical fashion, we must first investigate the motive behind the action. As such, I will now investigate why investors are engaging with SRI, and assess the motives (or 'factors') that have led to the emergence of this movement. I will argue that these factors can be loosely divided between two distinct groups: 'push' and 'pull' factors. Push factors are, for my purposes, classified as pressures for change, emerging from societal and market changes, which encourage institutions to alter their habits or current operations. These include, for example, regulatory changes, increased media scrutiny, or evolving client demands, which put pressure on market participants. Pull factors, on the other hand, are classified as opportunities identified and capitalised on by market participants to gain a competitive or reputational advantage, for instance.

While the optimists amongst us might well hope that the spreading of ethical movements has come about due to a pure concern for societal wellbeing, the pessimists would be quick to riposte. Such critics might well argue that the motive of the client, as well as the money manager may now be far removed from the wish of society, reasoning instead that the spreading of 'ethical' activity is more likely to have come about as a result of a clear focus on the bottom line (the aforementioned "desire for money"). In either case, this is arguably a question of self-interest on the part of those market participants actively involved in these ethical movements. The push and pull factors both demonstrate examples whereby some participants are acting unethically, whilst others are not.

For instance: on the one hand, the push factors may emphasize that the rise of SRI can be traced back to ethical standards and obligations, signifying ethical motive; whilst on the other it may demonstrate the reluctant adoption of such strategies in order to maintain, or increase, assets under management (AUM), signifying an unethical motive.

Pull factors can similarly reflect differences in motive: with some clients and money managers showing unethical motive, whereby their primary consideration is that of value creation; whilst other participants demonstrated ethical motive by being attracted by the proposition of acting in an ethical manner, therein showing an appreciation and recognition of ethical values.

SRI movements are not as a whole either ethical or unethical, but I will over the course of this chapter demonstrate that we may pass ethical judgment over some participants within these movements.

Section 3.1:
Overview of SRI Strategies

It is worth taking a brief moment to outline the various forms that SRI strategies can take, before assessing the motives behind them. SRI is the act of including social or ethical goals or constraints alongside traditional financial criteria, in order to decide whether to acquire, hold or dispose of a particular investment. Many different investment strategies are used, depending on the motive of the asset manager and their client. Exclusionary strategies, for example, are adopted by investors who wish to avoid what they term as 'sin stocks' - companies that operate in the oil and gas, gambling, or tobacco industries, for example - in an approach often referred to as negative screening. Such investors use this norms-based, exclusionary approach to develop an ethically-oriented portfolio, either to suit their own preferences and values, or those of their clients.[49] In some instances, this strategy will have a negative impact on portfolio performance, effectively placing a premium on ethical behaviour. Bias strategies, meanwhile, do not exclude stocks, but add an index-weight adjustment in accordance with their ESG rating. For a given market capitalisation, ESG outperformers will therefore have a greater weighting than underperformers. This is useful for asset managers who still want to maintain a broad exposure, but, at the same time, want to implement an ESG bias. Best-in-class approaches will take only the top ESG performers (for example, the top 50 percent by score in each industry). Finally, impact investment strategies will actively target enterprises that have a positive socio-economic and environmental

[49] Serafeim, G. (2011). The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance. *Harvard Business School Working* Paper. No. 12-035. (The active avoidance of sin stocks have historically been viewed as a way of punishing particular corporations for their unethical practices, based on the simple rationale that diminishing demand for such stocks will prompt the stock price to fall. As Serafeim points out, however, this logic is fundamentally flawed, as value investors will simply exploit the price discrepancy signalled by a rise in the earnings to price ratio. Private equity firms, similarly, will exacerbate this trend by buying the underpriced assets. Thus, while you might expect a degree of price decline, it is likely that it would not be much as would be hoped for in a partial equilibrium.)

impact. This approach invests in those companies which are pushing technological advancements in order to bring about a more sustainable future.

Section 3.2:
Push Factors

In a macro-sense, it could certainly be argued that many of the factors that led to the emergence of the SRI movement were ethically motivated. Indeed, one of the standout drivers has been the growing call for heightened social responsibility, which has emerged globally as a reaction to the consistently falling levels of trust in business since the 1970s. The number of scandals and industrial accidents that we are witnessing in the 21st century is arguably unprecedented, and has left the reputation of such businesses, as well as that of entire industries, in tatters. With the growth of online media content and global connectivity, such instances of malpractice can no longer be swept under the carpet, and the repercussions of substandard practices are rightly holding companies to account for their actions. In a Green Paper entitled 'Promoting a European framework for Corporate Social Responsibility', the European Commission concluded that the main factors encouraging CSR and SRI were: "[…] expectations from citizens, consumers, public authorities and investors in the context of globalisation and large scale industrial change"; social pressures "[…] influencing the investment decisions of individuals and institutions both as consumers and as investors"; "increased concern about the damage caused by economic activity to the environment" and lastly, by the "transparency of business activities brought about by the media and modern information and communication technologies".[50] This certainly indicates ethical societal pressures played some role in motivating more ethical investment and corporate strategies.

Indeed, in my view, SRI movements can be deemed to be ethically motivated if the market participants at their root, the asset owners themselves, are engaging with them for ethical reasons, even if the money managers themselves are doing it only to attract, or keep hold of, clients. Some dilution of the ethical motive, from client to money manager, is to be expected, as an ethical motive for one actor may result in an unethical motive for another. Thus, I believe that the original motive,

[50] European Commission. (2001). Promoting a European Framework for Corporate Social Responsibility. *European Commission Green Paper*. Brussels. 18th July. p5.

namely the client acting for ethical reasons, is sufficient to meet the ethical criteria, so long as the impact is also ethical.

Client demand pressures are beginning to be felt more globally and has certainly been the driving force behind much of the widespread growth in ESG-related financial products. ESG integration within the equity markets has long been established and, thanks in part to client demand, we are also now witnessing growing uptake by fixed income investors. In fact, according to a Eurosif Report in 2016, throughout Europe we saw a greater volume of ESG fixed income assets than equities.[51] Many asset owners who have streamlined their strategy for ESG integration into their equity investment process are now deliberately extending such a framework across their portfolio.

As client expectations and demand accelerates, asset managers, in the pursuit of setting themselves apart, will be expected to expand their ESG offerings. As investors increasingly incorporate ESG indices into their valuation frameworks, sovereign institutions as well as companies will be incentivised to restructure the way in which they operate, as they will be acutely aware of the fact that a failure to adapt to such measures will result in a difficulty in attracting future investment capital. Japan's Government Pension Investment Fund, the largest of its kind in the world, in collaboration with The World Bank Group, have reacted by seeking to research practical solutions for the integration of ESG concerns into fixed income portfolios.

Authers, in an article in the Financial Times back in 2017, points to other such instances of portfolio restructuring across the industry, with notable investment house 'The Vanguard Group' taking positive steps through voting for a shareholder motion which advocated for the avoidance of investments in companies with demonstrable links to genocide or other such abhorrent crimes.[52]

This would seem to be an example of a clear ethical motive, on the part of the money manager, as it stresses the ethical reasoning behind the strategy. The second part of our definition of ethical action, would however, only be satisfied through the elimination of a negative impact, and not through avoidance alone. If Vanguard's divestment does not manage to change the market outcome, that is to say that it does not create a measurable positive social or environmental impact,

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[51] Eurosif. (2016). European SRI Study. *Eurosif Paper*. [Online]. Available at: http://www.eurosif.org/wp-content/uploads/2016/11/SRI-study-2016-HR.pdf
[52] Authers, J. (2018). ESG investing poses big challenge for fund management industry. *Financial Times*.

then I would not view this as morally praiseworthy. The elimination of a negative, i.e. -1 to 0 is after all, a positive move and therefore fits within my definition of ethical action as it can be considered the same as a change from 0 to 1. Divestments that fail to create a market change i.e. -1 to -1, however, cannot be deemed to have been impactful and thus does not succeed in satisfying the definition for ethical action. As far as my definition is concerned, an outcome can only be considered to be morally praiseworthy insofar as it creates genuine positive impact.

Other institutions have been more reluctant, needing somewhat of a nudge to change their investment practices. BlackRock found its annual meeting disrupted by protesters back in 2018, who were campaigning on the belief that the asset management firm was favouring investments in companies who were significantly contributing to climate change, with some NGOs going a step further with allegations that the firm was essentially "[…] making a killing on killing".[53] BlackRock, in an effort to restore its reputation, has since announced plans to become a leader in "sustainable investing" and followed up on its promises by launching a series of ESG-incorporated exchange traded funds (ETFs). Possessing a hefty quarter of total market share, BlackRock is in a position to considerably change the ESG ETF landscape for the foreseeable future, in a marketplace that is expected to grow exponentially over the next decade. This change in strategy could still be deemed to be ethically motivated, even though BlackRock clearly incorporated ESG to save face, provided that their clients invested in the ESG ETF for ethical reasons.

It is worth noting, too, that much of the demand growth for ESG investing has come from governments themselves, not just through their collective implementation of cross-border regulations but similarly through their investment practices. Federal and state governments are unsurprisingly the largest institutional investors globally, and so the influence that they can exert can be substantial. Governments have exercised such power and influence by pressurizing investors, such as on the topic of disclosures. While philosophers and economists both past and present may dispute the place and role of government, it is clear that in some instances, the private sector does not always act in a manner which is conducive to the greater good.

While we have established that motives are often ethical, clearly many have an ethical impact, and as such satisfy their obligations. Divestment strategies, were for instance, being widely adopted throughout the apartheid era in South Africa as a protest movement against developments

[53] Financial Times. (2018). ESG Investing poses big challenge for fund management industry. [Online]. *Financial Times.* Available at: https://www.ft.com/content/53c1d3c4-63f0-11e8-90c2-9563a0613e56

in the country. A number of small-scale protests which began on US university campuses quickly transitioned into a wide scale protest movement as 22 nations, 26 of the US states and around about 200 US companies took a strict economic stance against the government of the African nation. Active divestment in the country led to the approximate loss of $1bn of foreign direct investment (FDI) from the US, which consequently crippled the Rand and brought about a dramatic rise in inflation. The resulting unsettled nature of the South African economy suggests that such protests succeeded in incriminating the government for the issues surrounding apartheid and shows the power of divestment as a strategy to highlight concerns, humanitarian or otherwise, and to influence change. Stories such as that of South Africa provide hope to ethical investors and their clients, as they see that such efforts are not in vain, and shows that they have the ability to enact change through acting on their moral convictions. Other such examples of divestment campaigns exist, especially in retaliation to human rights violations within the Middle East, targeted predominantly at Iran, Israel, Sudan and Syria. It is important to note how such strategies have exhibited varying degrees of success, however, it is nevertheless evident that ethical investing can, if implemented correctly, be harnessed as a tool by which to exert a degree of influence, for whatever reason.

If we now consider inclusionary rather than exclusionary strategies, it is undeniable that such interest in this respect has brought about crucial advancements and innovations in green technologies. Initial hesitancy regarding costs incurred through research and development has been replaced with enthusiasm, with sustainable technologies managing to break through into the mainstream, with Crooks pointing out how renewable energy, for instance, now represents nearly two-thirds of all new power capacity worldwide.[54] A rise in impact investing has subsequently benefitted companies which are firmly engaged in sustainable technologies, through the use of green bonds and other such financial instruments, thus rewarding them for such socially beneficial endeavors. If the intent had been financial, rather than ethical from the start, then this would not have constituted an ethical motive, however, as there was clear ethical intent, which subsequently yielded a financially positive impact, this provides an example of a preferable scenario.

The link between sustainability and financial return has been explored further by A.T. Kearney, as they conducted a study investigating the heightened financial performance of

[54] Crooks, E. (2019). The week in energy: A look ahead to 2019. *Financial Times*. January 5th.

sustainable companies. The study focused on 99 companies operating across the developed and emerging markets, and were selected from the Sustainability Index and well as from Goldman Sachs' Sustainable focus list. The study found that of the 18 industries which these companies spanned across, the companies in 16 of these outperformed the industrial average by a sizeable 15 percent margin.[55]

As actors within an economy, investors and companies, as well as fulfilling their function, each have a role in achieving sustainability, and in that sense, the SRI movement can achieve more than the sum of its parts. Market participants are no longer separated from matters concerned with morality, gone are the days when such companies are perceived as faceless entities far removed from matters of social justice and ethical responsibility. Millennials are seemingly also playing their part and are likely to continue to shape the financial industry in the near and distant future by enacting change through the promotion of their values, in order to mould a world devoid of unethical business by advocating for sustainable practices, both on the part of the company, as well as the investor.

If we are to adhere to the framework of the triple bottom line, consisting of one part social, one part environmental and one part financial, then it can be expected that companies and investors will only hope to achieve success if they can implement a rounded approach to their operational strategies. Sustainable development needs to be considered as a strategic 'modus operandi' for actors within the economy, as a way of satisfying current wants and desires without diminishing the opportunities presented to future generations and societies. That means investing more into human capital, adopting renewable approaches to energy and the environment whilst tying into ever closer relations to stakeholders.[56]

SRI should not be considered to be the all-encompassing solution to all matters of sustainability, however, this form of strategy can help to promote a more effective, more operationally sound business environment moving forward. Growing demand has brought about consensus in the belief that investors, acting as agents within an economy, hold as much responsibility as governments in promoting future behavioural changes, however, in order to be

[55] Mahler, D. Barker, J. Belsand, L. & Schulz, O. (2009). *"Green" Winners: The performance of sustainability-focused companies during the financial crisis.* Chicago: A.T. Kearney.
[56] European Commission. (2001). Promoting a European Framework for Corporate Social Responsibility. *European Commission Green Paper*. Brussels, 18th July 2001, p8.

considered as ethical, their practices must be implemented for the right reasons, whilst creating desirable impacts.

Section 3.3:
Pull Factors

Having investigated the positive push-factors behind ethical investing, I will now investigate the multitude of pull-factors which could, by comparison, provide a dimmer view of their motives. Skeptics might argue that recent upsurges in the adoption of SRI represent nothing more than a marketing tactic on the part of fund managers to attract asset owners, charging higher management fees in the process. Others may question whether ethical investing is an attempt to justify their existence, in a marketplace which has lately witnessed an influx of new passive product alternatives. While I have argued that funds run by financially motivated managers can still be deemed to be ethical - provided that the clients are ethically motivated and the impact is positive - this does present them in a slightly dimmer light. Moreover, if studies show that engaging with ESG metrics can lead to outperformance, and it can be proven that this is the reason for why companies, clients and investors are choosing to adopt ethical strategies, then such examples could certainly be deemed to be unethical.

In this section I will investigate how ESG metrics can lead to investor outperformance, which might explain why the use of such metrics has spread like wildfire across the investment landscape. If this outperformance proves to be the case, it might call into question the belief of those who suggest that such strategies are implemented with ethical considerations in mind. If clients and money managers are adopting these strategies for financial gain, then this demonstrates an example of an unethical motive.

One particular examination into the relationship between sustainable investment methodologies and subsequent outperformance was conducted by Mercer and the UN Environment Programme Finance Initiative, which found that of the 20 tested variables, 10 of the cases identified a positive correlation, 7 returned neutral observations with just 3 implying a negative correlation.[57] Sherwood and Pollard conducted similar research, aiming to investigate the

[57] UNEPFI. (2007). Demystifying Responsible Investment Performance: A review of key academic and broker research on ESG factors. *A join report by The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer*.

risk-adjusted return potential provided by ESG in the Emerging Market equity markets. Within the thorough study, they compiled data on Beta, Sharpe, Omega and Sortino ratios, as well as returns for both ESG and non-ESG Emerging Market indices. They concluded that ESG investments sure enough reflected outperformance when compared against non-ESG investments.[58]

Studies such as those mentioned above have primarily focused on the return potential provided by ESG analysis. Pomorski, on the other hand, views them in a different light, instead focusing his attention on the impact of ESG metrics on risk. Pomorski, in collaboration with Dunn and Fitzgibbons, compiled a study ‘Assessing Risk Through Environmental, Social and Governance Exposures’. In it, they ultimately found that the companies reflecting poorly in terms of ESG could be considered to be riskier. Subsequently, ESG analysis can be effectively utilised as a way of identifying black and grey swan risks, possible unpredictable events which can be caused by operational issues.[59] If we are to consider the widespread prominence of ESG concerns within the emerging markets especially, it would be a fair judgement to suggest that emerging market investors who are ignoring ESG metrics are, as a result, more vulnerable to fluctuations and are thus more likely to reflect worse performance over the long run. By incorporating an ESG framework into their investment processes, either through the use of an ESG overlay or through choosing to adopt a fully-fledged 'ethical' portfolio, investors will be more likely to avoid scandals and catastrophes, thereby limiting their exposure to downside risk. However, if they are implementing such strategies for these reasons alone, then they will be susceptible to criticism as their motive is clearly unethical.

The ability for ESG analysis to protect a portfolio from potential downside risks should not be understated, evidenced through the fact that BP for example, was removed from leading ESG indices in the run up to the Deepwater Horizon incident amid concerns regarding the outsourcing of maintenance for the company's primary offshore oil wells. With poor levels of ESG data it can be expected that some companies may however fly under the radar, with some ESG issues going undetected by market participants.

The Volkswagen (VW) emissions scandal, where VW were found to be cheating emissions tests through fitting modifying software to 11 million cars worldwide, is an intruiging example to

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[58] Sherwood, M. W. & Pollard, J. L. (2018). The risk-adjusted return potential of integrating ESG strategies into emerging market equities. *Journal of Sustainable Finance & Investment*. 8(1) pp. 26-44.
[59] Dunn, J., Fitzgibbons, S. & Pomorski, L. (2017). Assessing Risk Through Environmental, Social and Governance Exposures. *AQR Capital Management Report*, LLC. Greenwich: AQR.

assess in terms of ethical action. The scandal took SRI investors by surprise with Olivier Lebleu, describing how it had left the majority of investors "[...] scrambling to explain why VW was 'best in class' according to ESG data providers".[60] In this case, the motive to invest in best-in-class was one which can be perceived to be ethical, however, assessments of the impact may prove contentious. Whilst the impact failed in terms of being positively impactful, this could be argued to be an example of extenuating circumstance (as refered to earlier), as investors were relying on the advertised emission tests. Whilst this does demonstrate the necessity of adequate due diligence on the part of the investor, I believe it would be demanding too much of the investor to expect them to uncover such deception on the part of VW. As such, the impact of the action was out of the control of the doer of the action, in this case the investor, and therefore the action should still be regarded as morally praiseworthy.

Eagled-eyed investors may benefit from paying closer attention to the practices of some companies, as proved by Hermes, who backed out of the VW position that they had built up pre-scandal, explaining the concerns they had regarding corporate governance issues. On the face of it the actions of Hermes would be regarded as unethical as both intention and impact may be questioned. It is not clear whether the choice to divest was motivated by the desire to preserve capital or because of a genuine desire to highlight concerns and to influence change. The divestment strategy ultimately proved insufficient in avoiding a scandal, and while it may have momentarily diminished the pool of debt finance, such market inefficiency would have been corrected by socially neutral investors, thereby making the impact of the action neutral.

The examples of BP and VW perhaps demonstrates that ESG metrics can provide information that is not adequately priced into a security, and where there is a mispricing of assets, there is also opportunity. ESG analysis can shine the light on factors which are often overlooked through an intricate inspection of the company accounts and a valuation of its fundamentals.

The pull of integrating ESG into the fixed income markets is especially appealing considering the exposure to emerging market debt (EMD), as well as other such high yield fixed income alternatives that are becoming increasingly attractive to institutional investors. As research increasingly demonstrates the ability for ESG to affect risk, investors derive value from its use as a method for protecting downside risk. This is especially of interest in the more high risk, high

[60] Funds Europe. (2015). ESG Investing: The key to Volkswagen. *Funds Europe: Magazine Issues*. November.

yield, more volatile EMD markets.[61] The long-term risk adjusted return potential of ESG analysis for equity portfolios has been demonstrated long enough for fixed income managers to draw knowledge from its usages. Shock events and scandals such as that of VW, Wells Fargo and Equifax[62] have emphasised the potential value of ESG score signals. In a paper compiled by ESG research and ratings agency MSCI, they investigated reasons behind extreme decline in company value, depicted by a share price decline of >95 percent over a three year period. Their study found that companies located in the bottom 20 percent of their ESG ratings experienced a three times multiple of such incidents in comparison with those companies occupying the top 20 percent. Some companies will of course be signalling potential ESG-related issues, which may not become realised for some time to come, much like a dormant volcano, a concept known as 'unmatured event risk'.

The appeal of ESG-integration strategies are evident enough such that instead of observing a hesitant first-mover problem, we are instead observing the fear of missing out, with the early trailblazers reaping the rewards of strategic innovation. Swiss Re, for instance, was one of these early innovators, through implementing an ESG framework across asset classes by way of establishing a form of standardisation as a way to accurately measure performance. Much of its asset allocation, some $133 billion, was allocated to government and corporate bonds, which set the trend for fixed income asset managers to follow suit and engage with ESG integration, incorporating it within their own investment processes.

Guido Furer, CIO at Swiss Re noted in relation to ethical investing that "It is more than doing good - it makes economic sense".[63] The idea that there must necessarily be a trade-off between returns and good deeds has been refuted consistently as of late, with Emerson vocally criticising this form of bifurcated value proposition. Emerson instead proposed the term 'blended value', seeking instead to prove how financial value proposition can be thought of as being demonstrably tied to socio-environmental factors.[64] Through the recognition of the blended nature of such factors, investors are thus empowered by the knowledge that they can pursue profit-seeking

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[61] MSCI. (2018). 2018 ESG Trends to Watch. *MSCI Report*. January 2018. p14.

[62] VW were found to have intentionally manipulated emissions data. The Wells Fargo account fraud scandal exposed the creation of fradulent savings and checking accounts on behalf of clients, without their permission. The Equifax breach led to personal data of millions of customers being hacked from the company's US website.

[63] Ralph, O. (2017). Swiss Re shifts entire ¢130bn portfolio to ethical indices. *Financial Times*. July 6th.

[64] Emerson, J. (2000). *The Nature of Returns: A Social Capital Markets Inquiry into Elements of Investment and The Blended Value Proposition.* Harvard University, Harvard Business School, Boston.

activities, whilst investing with a conscience. All things considered, I would, however, contend that for many market participants it would be more apt to suggest that 'it makes economic sense - which matters more than doing good', as the motive is financial for some, and ethical for others.

Arriving at a definitive conclusion to explain the predominant motive behind SRI is somewhat challenging, namely because market participants will adopt different strategies for a variety of reasons. Some so-called "ethical" investment strategies can lead to heightened financial returns, through reducing risk and capturing alpha (the active return on an investment), which can prove problematic when we consider that any action without ethical motive is without moral value. My issue here is not with the generating of financial returns, per say, as long as the actions were indeed ethically motivated, but rather that knowledge of the financial potential can lead to the corruption of subsequent motivations to the extent where actions can no longer be deemed to have been ethically motivated. That is to say, the existence of heightened financial returns may increase the likelihood that investors are engaging in these strategies solely for generating attractive financial returns and not for creating measurable positive social or environmental impact. In this sense ethical considerations are not a primary motive, and therefore, their actions can be deemed to be unethical.

Chapter 4.

Ethical Responsibility in Emerging Markets

Emerging markets may be defined as "nations that are investing in more productive capacity", that is to say, countries showing some, but not all, of the characteristics of a developed market. The place and role of the emerging markets within the global economy is certainly considerable and shows no signs of abating. Containing the majority of the world's population, as well as landmass, many of these economies are growing at an unprecedented rate and the development journey that many of them have taken has been extraordinary. This marketplace offers a new frontier with uniquely complex challenges, but similarly presents investors with unique opportunities to capture lucrative returns. Given the high risk, high reward, dynamics it would not be inconceivable for market participants to be incorporating ESG metrics into their invesment frameworks, in order to better their financial performance, which could undermine the ethical validity of their motives and impacts.

Over the course of this chapter, I will be focussing my attention on the emerging markets as I believe they offer the best case study for measuring possible ethical failures within the ethical investment movement. Indeed, often market actors interacting with and investing in the emerging markets will often represent highly pertinent examples of ethical suboptimality, as they fail to fulfill the motive or impact criteria for my definition of ethical action.

I shall first examine cases where the desire for money is pushed to the point of being unethical, and in some cases illegal, by introducing the concept of greenwashing. I will then determine what characteristics set the emerging markets apart, discussing what challenges are often faced, before investigating the alpha-capturing, financial opportunity, potential found when investing in these regions. This will help highlight the ethical as well as unethical practices being adopted.

Section 4.1:
Greenwashing

Greenwashing is defined as a form of green marketing adopted by a company, or asset management firm, whereby deceptive, unsubstantiated, misleading, or even downright manipulative claims are made about the social attributes of a product, or the ethical activity of said company or investor. Greenwashing, as a strategy, is embraced as a way to exaggerate the ethical values of a company, and reflects a situation where more time and effort is spent on the marketing of 'ethical' products than is actually spent on making the product as ethical as possible.[65] Greenwashing is a prime example of when the impact of an action is demonstrably unethical, thus making the action itself unethical.

We should be collectively concerned by the attempt and tendency of market actors to over-promise in terms of their emphasis on ethical concerns, especially when it is made explicitly clear that their actions, in actuality, do not reflect such behaviour.[66] For example, many of the so-called ESG funds will have Exxon Mobil as their largest holding, which can be considered strange given the promise of ethical investing, with oil companies representing the antithesis of what you might expect of such a portfolio. An article published in July of this year within the FT describes such a

[65] Aggarwal, P. & Kadyan, A. (2011). Greenwashing: The Darker Side of CSR. *Indian Journal of Applied Research*, 4(3) pp. 61-66.
[66] Reuters. (2017). Emerging climate bonds boom, but are they really green?. *Reuters*. August 18.

scenario, citing how Vanguard's 'green' fund was discovered to be investing in oil and gas stocks. The article includes commentary from Hester Peirce, a commissioner at the Securities and Exchange Comission (SEC), who directs criticism at the spreading of misleading marketing material. The $500m ESG US Stock ETF in question, claimed, on Vanguard's own website, to specifically exclude "[...] stocks of companies in the following industries: adult entertainment, alcohol and tobacco, weapons, fossil fuels, gambling, and nuclear power", and yet, was found to be investing in a host of companies operating in the oil and gas industry. Such investments included the crude oil refiner Marathon Petroleum, pipeline company Kinder Morgan, as well as Schlumberger, an oil services company.[67] Whilst the original motive may have been ethical, the impact is certainly not, and therefore actions such as this are in violation of our definition of what may be considered ethical.

Accusations surrounding the use of greenwashing, whereby eco-friendly marketing rhetoric is used simply as a public relations exercise without providing any meaningful benefits to society, are becoming widespread and examples such as that of Vanguard are only further amplifying the growing concern that investors can, and indeed are being misled by socio-environment products. The highlighted discrepancy shows the pitfalls of the still somewhat nascent SRI sector, showcasing how asset owners are placing their money in funds that may not necessarily be buying the assets that they might expect.

Greenwashing seems to have a particular presence in the emerging markets, with companies and asset management firms operating or dealing within these regions facing a greater number of accusations regarding such activities. I shall, as a result, be focusing my attention on these regions in order to assess why this may be the case. If greenwashing, alongside other questionable practices can be proved to exist, then it would be safe to assume that either the motive or impact would not be classified as ethical, which in so doing, allows us to call into question the ethical nature of such practices.

Section 4.2:
Emerging Markets as Antithesis of Ethical Investing Movements

[67] Financial Times. (2019). Vanguard 'green' fund invests in oil and gas-related stocks. *Financial Times*.

Given the differences in regulatory and operational structures, the emerging regions, are naturally more susceptible to manipulative practices. This leads us to consider whether such regions exhibit the very antithesis of the aims put forward by ethical investment movements. Such differences can be thought of in terms of ethical or indeed, cultural, relativism, whereby perceptions of what may be regarded as responsible and ethical behaviour in the emerging markets may differ from what would be considered to be acceptable practice in the developed markets. Jeffrey Unerman stresses as much, arguing that this phenomenon provides us with a compelling explanation for disparities in corporate social reporting, and in my opinion is also reflected by differing adoption rates for ethical investment practices from one region to the next.[68] Given these differences, alongside the heightened risks within the emerging markets, fund managers have become especially aware that if implemented correctly, an 'ethical' ESG portfolio could not only provide comparable returns to benchmark indexes, but in some instances, could in actuality produce excess returns. Notable studies, such as those conducted by Xingqiang Du, have sought to expose prominent examples of greenwashing within the emerging markets, thereby calling into question the sincerity of green and ethical product advertising found in such regions.[69] I believe it is important to scrutinise many of the ethical failings within such regions, taking a closer inspection of the practices which are being used, in order to assess what the ethical implications may be through an evaluation of motive and impact.

Section 4.2.1: SRI within the Emerging Markets

The emerging market space has continued to intrigue and attract investors who have been put off by the underperforming developed markets since the financial crisis, as they have questioned the risk-reward dynamics of the traditional markets which have themselves been showing heightened levels of volatility. That said, investors have continued to approach the emerging markets with a certain degree of hesitancy, as they are still very much aware of the poor reputation that emerging market companies, as well as sovereign issuers, have historically had, as a result of decades of ignoring ESG concerns. Given the growth of such SRI products in a comparatively short period of time, we must question whether SRI in these regions represents good ethical behaviour, or whether

[68] Unerman, J., (1999). Ethical relativism: A reason for differences in corporate social reporting?. *Critical Perspectives on Accounting*. 10(4) pp. 521-547.
[69] Du, X. (2014). How the Market Values Greenwashing? Evidence from China. *Journal of Business Ethics*. 128(3).

investors engaging with ESG are motivated simply by the risk-adjusted return potential of such metrics. If the latter were to be the case, then it would surely highlight an example of unethical motive, whilst the resulting impact may prove to be similarly undesirable, suggesting that such investment strategies are not as ethical as is often portrayed.

As previously stated, these economies face very different pressures, and are as a result faced with a range of unique ESG issues. Given that such issues are thought of as being more extreme within the emerging markets, the potential returns garnered through reduced portfolio risk can be substantial. A study conducted by Allianz, in collaboration with Risklab, found exactly this, showing how "tail risks", black swan events that are able to cause substantial damage, can effectively be reduced by as much as 40% if investors can manage to optimize the ESG risk exposure within their emerging market portfolio.[70] The same study suggested that such ESG optimisation, with the ability to aid portfolio performance, proved to be most effective within emerging market investing in particular. Sure enough, in recent years and in part due to the scarcity of information and transparency, emerging market active fund managers have outperformed their developed market peers, implying that they have been able to gain greater payouts from the knowledge that they have been able to gain on occasion. Advances in both the quantity and quality of ESG data has allowed such fund managers to rank and filter companies as they please, allowing them to identify 'outperformers', companies that transcend their markets, which, if used effectively, can be used as a tool to diminish downside risk. Based on the established idea that strong ESG metrics can be correlated closely with financial performance, the companies identified as being outperformers when compared against their nations sovereign ESG rating, will naturally be expected to provide superior returns. MSCI did some targeted research on this, where they compared the risk and return statistics of their Emerging Market ESG Leaders Index, against that of their standard Emerging Market Index. They found that the former Index outperformed the benchmark Index by 3.79% annualised, over a 5 year period from 2011 to 2016. Upon closer inspection, they attributed 2.42% of the 3.79% to the picking of the right stocks, as opposed to systematic or external factors. ESG factors that are considered to be financially material, that is to say, factors that can affect the credit risk of emerging market sovereign issuers, are particularly challenging, often in regard to the way in which such issues are realised. For instance, many ESG

[70] Risklab, A. G. (2012). Risk Matters: Balancing risk and return. *Risklab Report*.

concerns will remain dormant over the short-term as they are by their very nature, mid to long-term phenomena.[71] If blinded by a form of returns-based myopia, it can be easy for investors to overlook that which may lead to higher volatility within their portfolio, leaving them exposed to downside risks.

Other studies that have been conducted have further emphasised the use of ESG/SRI investing as a way of maximising returns, another reason why we might assume motives to be unethical. Bloomberg, for example, has cited a study by the Institute of International Finance (IIF) which found that investors in the emerging markets who focused their attention on social parameters, did, in so doing, achieve above-market returns over the period. Heightened returns were generated from emerging market indices that attributed a greater emphasis on companies scoring well on ESG factors, compared to indices reflecting a broader regional outlook, with Emre Tiftik at the IIF offering a possible explanation, noting how "A focus on ESG might offer some cushion for emerging market investors, particularly during stress episodes". Data amassed by Bloomberg found that in the last decade, ESG leaders have beaten trend returns by some 103 percent.[72]

Due to the market drag effect, it can become a near-impossible task to identify which companies are better equipped to transcend country expectations. The impact of norms and practices, particularly within emerging market countries, should not be understated, and are heavily woven into the governance metrics of ESG analysis. Ownership characteristics can be unique to each individual market. If we take India for example, around about half of the companies domiciled in the country, which appear in the MSCI Emerging Market Index, are family owned, displaying complex conglomerate, family-oriented frameworks which can dissuade minority shareholders. If you take China, for instance, the picture is very much different, with over half of the listed Chinese companies being state-owned, where a clash between the interests of shareholders and the strategic interests of the state can cause concern. Close ties between big business and governmental institutions may hinder the ability of companies to present a whiter than white public image, as Huawei has found recently regarding concerns over privacy in relation to developments in the 5G network abroad. If an investor can get to grips with these often complex

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[71] AllianzGI. (2019). An ESG framework for EM sovereign bonds. *AllianzGI Report.*
[72] Bloomberg. (2019) Do-good investments are smashing your emerging-market returns. *Bloomberg: Article*. [Online] Available at: https://www.bloomberg.com/news/articles/2019-02-18/do-good-investments-are-smashing-your-emerging-market-returns

market characteristics, then they could gain a competitive advantage in the way that they process and factor in governance risks. Others will instead choose to apply a more simplistic framework, which would set some form of minimum global governance standard, which will then allow them to identify clear outperformers, from which they can then assess which of the remaining companies have ESG ratings above that of their domicile country's sovereign ESG rating.

As we look to the future of business it becomes apparent that sustainable practices, combined with strong corporate governance, will become prerequisites for those emerging market companies who are hoping to compete globally. Emerging market economies will continue to fuel growth in the following decades and in order for investors to capture some of that growth, whilst having an eye on the downside risks associated, you would anticipate that they will adopt stricter ESG analysis in order to sort the outperformers from underperformers within this volatile marketplace. Given that ESG makes such financial sense in the emerging markets, we must conclude that in many instances the motive may act as the inhibiting factor preventing actions from being considered to be truly ethical, due to ethical considerations not being the primary motivator.

Section 4.3:
Emerging Market as a Growth Region: SRI Counter-argument

The growth in green bond issuance has been substantial within the emerging markets as of late, with China leading the way within the Asia-Pacific region, representing around 19% of total global green bond issuance in 2018.[73] Hong Kong, Indonesia, Australia and Japan have been the notable countries following suit, emerging as the largest sources of green bond issuance, pushing the Asia-Pacific region to reach total expected cumulative issuance of in excess of $500bn by 2025.[74] Similar waves are being made in the equity markets, although they are perhaps taking longer to filter through. Emerging market investors, seem to be willing, to some extent, to pay a premium for stronger corporate governance,[75] which in turn creates a lower cost of capital for governance leaders. Eventually, as corporate governance progresses, with convergence of sustainable relations with stakeholders, they should be expected to no longer have to pay such a premium.

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[73] China Daily. (2019) China leads in green bonds among emerging markets. *CHINADAILY.COM.CN.* [Online] Available at: http://www.chinadaily.com.cn/a/201905/08/WS5cd2295aa3104842260ba66d.html
[74] Ibid.
[75] IFC. (2010) Asia Pacific Boards - Valuation premium for corporate governance. *Bank of America Merrill Lynch Report*. August.

Section 4.3.1: Counter to SRI Counter

Given the fact that the exclusionary use of ESG metrics, in order to diminish downside, idiosyncratic, risks seem to be more prominent than inclusionary strategies, within the emerging markets, then the argument that ethical motives are more dominant seems somewhat counterintuitive. The lack of impact investing arguably points to the sub-optimal nature of ethical investment movements within the emerging markets especially, as only true impact investments can be considered to be purely ethical in nature. There seems to exist many cases within the emerging markets where ethical commitments have been overstated, which is where we run into examples of such sub-optimality.

We cannot shy away from the fact that the emerging markets are some of the worst performers in terms of rankings within the Global Corruption Barometer, as well as the Corruption Perception Index. These regions are failing in the act of engaging with their ethical responsibilities, failing to meet their ethical motive and impact requirements. Ultimately we must ask the obvious question: how can it be plausibly possible to have ethical products in markets which so often display unethical practices? This, I believe, is a question which is particularly pertinent and cuts to the heart of the debate, calling into question the ethical nature of SRI within the emerging markets.

As discussed in this chapter, I believe that the emerging market case study does provide us with a compelling argument against the assumption that ethical investments are always ethical. Whilst these regions have managed to progress significantly in a relatively short time, displaying signs of turning a corner in terms of their developmental journeys, I nevertheless believe that 'ethical' investment practices within these regions largely represents nothing more than financial opportunism. Ethical greenwashing has allowed institutional investors, as well as large multinational corporations to benefit financially, without displaying a credible track record of ethical responsibility. In such instances, there can be expected ethical question marks about the nature of both the motive and the impact, which leads us to question the ethical validity of such practices.

Chapter 5.

The Future of Ethical Investing

For as long as asset managers continue to incorporate companies with a poor track record for ESG concerns, notably from the oil and gas industries, into their 'ethical' portfolios, then they will always be failing to deliver in terms of ethical impact. If they are instead adopting an ethical strategy, but only for the purposes of financial return, then they will be failing to deliver in terms of ethical motive. More evidently needs to be done from a transparency perspective, to make SRI truly ethical, with Schwartz noting that "[…] if the ethical investment movement were to be honest and forthright, they would not label their screen as 'ethical' at all".[76]

As I have discussed, an ethical tension is created when either the motive or impact prove insufficient in meeting the criteria for what can be regarded as ethical action in the context explored. These ethical failings, as I shall discuss, may only conceivably be corrected by setting clear boundaries for appropriate ethical business and investment conduct, as well as outlining examples of potential transgressions.

In this chapter I shall attempt to find a solution for how ethical investment movements can act in a more ethical manner in future, by way of influences to either the motive, impact, or both. As I shall discuss, possible solutions to influence either motive or impact may come in the form of a Code of Ethics and/or the standardisation of data and ethical standards.

Section 5.1:
Code of Ethics

I will in this section set out a Code of Ethics which may help SRI participants to adhere to their heightened ethical obligations. In order to ensure that the ethical investment movements are indeed ethical, then we must ensure that both motives and impacts are preferable. We may be able to do this by influencing the latter variable first, ensuring that market participants create ethical outcomes by adhering to a strict Code of Ethics for ethical investment and corporate responsibility, aided by the standardisation of data.

[76] Schwartz, M. (2003) The Ethics of Ethical Investing. *Journal of Business Ethics*. Volume 43. pp.195-213.

The integrative social contract theory mentioned earlier can provide a coherent and adaptive framework for resolving ethical issues, as well as having the ability to account for socio-cultural differences. This, to some extent, fixes the ethical/cultural relativist problem highlighted by Visser, as it allows individual nations states, or other such grouping to determine their own moral rules, although they are limited insofar as the overarching moral rules supersede such community-based agreements.[77] The theory also emphasises the need for the implementation of a minimum standard of conduct, whilst permitting "[...] nations and other economic communities to shape their distinctive concepts of economic fairness, but it draws the line at flagrant neglect of core human values".[78] So what might these minimum standards of conduct, in the form of a Code of Ethics, look like, and how might they shape the moral climate, keeping in check the many instances of misconduct?

A Code of Ethics should come from within and should focus not just on accountability, but also on mechanisms that can help to promote responsible behavior. Current efforts to crack down on financial misconduct have primarily seen government agencies levying significant fines on banks, and whilst this has proved effective to a point, it ignores the old adage that "corporations have neither bodies to be punished, nor souls to be condemned".[79] All this method achieves is the punishing of shareholders, overlooking the accountability of the executives who are primarily the ones responsible. Changes must, instead, come from the institutions themselves, and thus ethical codes of conducts would ideally become endogenous.

As Montagnon comments, most Boards of Directors ought to possess a degree of basic knowledge regarding the ethical governance of the corporation. The Institute of Business Ethics has seconded such calls, arguing that ethics should be among the fundamental responsibilities of any management board.[80] The New York Stock Exchange (NYSE) perhaps provides us with a good place to start, as it has generated rules prescribing the minimum requirements of the Code of Ethics of listed corporations. The rules explore the concept of "fair dealings", and describe a scenario whereby "[...] each employee, officer and director should endeavor to deal fairly with the listed

[77] Visser, W. (2008). Corporate Social Responsibility in Developing Countries. In: *The Oxford Handbook of Corporate Social Responsibility, by Crane, A., McWilliams, A., Moon, J., & Siegel, S.* pp. 473-503
[78] Donaldson, T. & Dunfee, T, W. (2002). Ties that Bind in Business Ethics: Social Contracts and Why They Matter. Journal of Banking & Finance. 26(9). pp. 1853-1865.
[79] (Saying attributed to Baron Thurlow (1731-1806). See John C. Coffee, Jr. *No Soul to Damn, No Body to Kick:' An Unscandalized Inquiry into the Problem of Corporate Punishment*. 79 MICH. L. REV. 386 (1981)
[80] Montagnon, P. (2014). Ethics, Risk and Governance. *Institute of Business Ethics*.

company's customers, suppliers, competitors and employees. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice".[81] I believe this provides us with a reasonable starting point as it describes a sensible, as well as logical, standard for ethical conduct in interactions with stakeholders and customers, and provides us with some basic moral precepts against the actions of cheating, lying and stealing. The rules go a step further by requiring of codes that they have "[...] compliance standards and procedures that will facilitate the effective operation".[82] The incorporation of provisions such as that of personal liability, may give added weight to the effectiveness of ethical codes, by nudging ethical behavior and acting as a deterrent to misconduct.

As the ethical investment universe grows, so too does the need for transparency, accountability and high-quality data, as such, any Code of Ethics will have to focus on addressing these core issues. As these movements evolve, so too will businesses, with those already investing in energy efficiency, engaging with local communities and disclosing data, being well positioned to survive, whilst those companies who are stubborn in their ways, will find themselves falling by the wayside. The financial services industry is one step ahead of the curve as it stands, already keenly aware of the challenges facing future business, already inputting measurements for evaluating future risk and opportunity in a world which is likely to change quite drastically. CSR still has some way to go in catching up with SRI trends, and by that I mean that investors are themselves pushing the companies to change. Such deliberate attempts to encourage disclosure rates, are motivated in part due to a lack of reliable and consistent ESG data for such investors, but such calls create a gradual change in the ways that businesses operate. Institutional investors rely on ESG data in order to evaluate which companies are engaging in sustainable practices, whilst companies rely on having a positive reputation for such practices. Consistent reporting perhaps then represents the first steps for wide scale sustainable development, with investors encouraging businesses to change, providing economic incentives to all participants. Part of the issue currently emanates from the fact that reporting standards are especially poor, particularly from within the emerging market regions, which acts as a significant barrier to SRI, which in turn acts as a barrier to CSR. Thanks to institutions such as the United Nations Principles of Responsible Investment

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[81] NYSE. (2003). 'Listed Company Manual'. § 303A.1. *New York Stock Exchange Report*. New York.
[82] Ibid.

(UNPRI) and the Sustainability Accounting Standards Board, data reporting is on the up, with ESG data quickly becoming standardized, which will no doubt lead to a torrent of actionable data from which to make informed decisions. In order to aid sustainable development, as well as the incorporation of ethics within economics and business, it is critical that all parties work collectively on improving the accessibility and quality of ESG data. There is hope that in the future, the conversation will shift in terms of not just punishing bad behaviour, but also rewarding good behaviour.

Institutional investors, in tandem with the index providers, as well as corporations, must certainly be expected to take responsibility for the products that they are marketing to the consumer, in whatever form, and enforcing stricter internalized rules which, although being ambitious, are certainly manageable, whilst being integral for the greater good. In order to crack down on greenwashing, politicians are seeking to come up with a stronger, as well as consistent, definition of what can be constituted as ‘sustainable investment’. It is their desire to force fund managers into disclosing how they choose to incorporate ESG factors into their investment frameworks, as well as assessing how companies are performing in terms of their social responsibilities. France was a notable first mover in this respect, introducing the Energy Transition Law back in 2016, requiring asset owners to incorporate ESG into their frameworks, whilst placing expectations on them to report on the management of climate-related risks. Before long, Brussels too had picked up the mantle, setting out clearer standards to be adopted. Back in March of this year, the European Parliament adopted a proposal with the intended aim of providing clarity on what sustainable investments are, through the creation of a EU-wide classification system. As MEP Lieve Wierinck noted at the time, “Today we can finally offer the financial industry an answer to the question: What does sustainability entail?”. It is the hope that a shift towards stricter standards will encourage the creation of a more mature market, with more effective uptake and adherence. It is perhaps not totally inconceivable that we may soon be able to separate the wheat from the chaff in terms of ethical investments, so that the measurable impact of investors can be compared.

The UNPRI, as mentioned earlier, has played a crucial role in spreading preferable market conduct and the institution maintains close ties with the leading financial actors. Tension, resulting from malpractice, has caused a rift between the parties as of late however, as the signatories to the UNPRI have faced accusations that they have not been upholding their part of the bargain, failing to practice what they preach, benefitting from the association, without necessarily following through with promises made. They were deemed to have not demonstrated the minimum necessary requirements of responsible investment activity, failing in their commitments to the six primary principles which were designed to better embed ESG considerations into mainstream investing. A third of all signatories were subsequently placed on a watchlist, given two years to lift their game, or instead risked being given their marching orders if their practices didn't improve. Whilst the majority of asset owners and managers have shown improvements, on track to meet the minimum requirements in the time allotted, over a third of signatories, with some $1tn under management, have been adjudged to have failed in the efforts and are at risk of being delisted.[83]

Section 5.2:
Standardisation

If ethical investment movements are to succeed in future, it is undeniable that a stricter form of standardisation, of data and ethical standards, will need to be implemented and widely adopted so that investors can more clearly understand their ethical obligations. By having a standardised model, comparisons between companies, even across borders and industry boundaries, will become seamless allowing market actors to know where they stand, and, specifically, where they rank. International standardisation of ethical investment metrics is still some way off, and it seems that significant changes still need to be made in order to make this wish a reality. If an international standardised model of SRI can be adopted, which minimises the discrepancies between the emerging market and developed market approaches to SRI, then investors can begin to sing from the same hymn sheet in order to progress in a unified manner.

In a move which can be considered a significant setback to investors seeking clearer and comparable data, the US Congress in July of this year announced that it will be rejecting a move to introduce European-style ESG reporting standards. Given that disclosures are already often far too broad and difficult to compare across sectors and markets, these issues surrounding the divergence in standards are likely to be exacerbated by these recent developments.[84] This news came on the back of positive news coming out of the United Kingdom, however, which plans to

[83] Financial Times. (2019). UN responsible investing body set to delist 50 groups next year. *Financial Times*.
[84] Financial Times. (2019). US Congress rejects European-style ESG reporting standards. *Financial Times*.

introduce a new green finance initiative. This initiative will seek to enforce mandatory requirements on listed companies to disclose any and all climate-related risks by 2022.

What has become demonstrably clear is that we need to enshrine a stricter and more coherent Code of Ethics for social responsibility; one which transcends borders and contextual complexities. We similarly need to impose standardisation of data and ethical standards, in order to encourage widespread investment in ethical investment initiatives. Both of these actions would help to create an ethical investment framework which may in future lead to such investments winning back the right to be called 'ethical'.

Section 5.3:
Impact Investing

As I mentioned in chapter one, ethical investments, which fit with my definition, should ultimately be thought of as investments “made into companies, organizations, and funds with the **intention** to generate **measurable**, beneficial social or environmental **impact**”.[85] Such impact investments are growing and will continue to grow as private clients, predominantly high-net-worth individuals and millennials, express their desire for their capital to create positive and lasting impacts. This growth in demand for sustainable and impact investment opportunities has been the driving force behind the creation of investment products that succeed in generating a range of social and environmental benefits. There is also a realization that capital can be readily recycled through a variety of investment structures, which would provide a more effective solution in terms of tackling a host of sustainability issues when compared against single-use philanthropic donations.

Conservation finance is a prime example of how investment products can be created with the intention of providing a tangible impact, in this case being dedicated to protecting a species. Conservationists have, for instance, started marketing a five-year “rhino bond”, whereby investors in the bond will be paid back their capital on the proviso that African black rhino populations rise across sites in South Africa and Kenya.[86]

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[85] GIIN. *Annual Impact Investor Survey*. pp. 1, 58.
[86] Financial Times. (2019). ‘Rhino bond’ breaks new ground in conservation finance. [Online]. *Financial Times*. Available at: https://www.ft.com/content/2f8bf9e6-a790-11e9-984c-fac8325aaa04

Increasingly we are collectively coming to terms with the fact that blended finance is necessary in order to tackle the toughest of the UN sustainable development goals. Such arrangements to encourage private sector inclusion are necessary in making up for the $1bn-a-day funding shortfall for conservation funding, which government institutions and philanthropists alone are unable to tackle. Such "outcome payment" models have similarly been effectively used to finance education and health projects, diminishing the burden on the public sector.

What sets these types of impact investments apart from other investment opportunities is the intentionality of social and environmental impact, as well as a commitment to measure and report on the social and environmental performance and progress of these underlying investments. These innovative financing structures, with ethical considerations at their core, are necessary for tackling the most pressing and challenging sustainability issues facing our world, and we must encourage the financial markets and institutions to accelerate the development of a high-functioning market that supports impact investing. While this marketplace still remains relatively small, there is hope that with continued development we will witness increases in both scale and efficiency in the coming years.

The reason why impact investments fit with my definition of ethical action is because they reflect both ethical intent and ethical impact. Whatsmore is that many of these investments can subsequentely yield financial upside and thus are perfectly viable options for those wanting to balance their values with returns. This means that my definition for ethical investment is not in any way fanciful as it provides an actionable roadmap pinpointing how the ethical investment movement needs to transform if it is to live up to what can reasonably be expected of it, whilst ensuring that investors maintain the ability to do well while doing good.

Conclusion

It was John Maynard Keynes who wrote of ethical principles that "For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still".[87] This, I believe, encapsulates the belief that paradigm shifts may only occur over the long-term and

[87] Keynes, J. M. (1963). *Essays in Persuasion*. New York: W.W.Norton & Co, pp. 358-373.

that significant changes in behaviour are decades in the making. Some eight decades have already elapsed since the comments of Keynes, suggesting that he may well have been correct in his proclamation; after all, we are still faced with an uphill battle in the effort of putting into place true and lasting changes to the way that business is conducted and companies and investors operate.

Over the course of this paper, I have objected to the widely held implicit assumption that 'ethical' investments are, by their very nature, intentionally ethical. My argument first established what it means to be ethical, settling on the idea that actions can only be regarded as truly ethical if they are underpinned by ethical motive and create the desired ethical impact. I established that investors and companies engaging in ethical practices have heightened ethical obligations. I refuted the notion that ethical investment movements are always driven by a desire to do what is morally right, arguing that the financial motivations have often proved more dominant than ethical motivations. I similarly refuted whether these movements create the desired impacts. I used the emerging markets to investigate instances where either the motive or impact proved unethical. I have concluded that, due to these ethical failings, it is problematic that such practices are labelled as 'ethical', with some even proving to be illegal.

A preferable scenario will always tend to occur when investors and companies manage to 'do well while doing good', by receiving financial returns as well as being responsible for social returns. This, however, must be brought about in the right way, and currently the markets are failing to act as a source of ethical behavior. There are clear demonstrated examples for the existence of ethical tension, emanating from unethical motives and impacts. This has underscored the need for a more nuanced, coherent, framework which may more clearly set the boundaries of just business practices and ethical transgressions. A concerted effort should be made to standardise ethical practices, setting clear guidelines on those who wish to adopt such mechanisms. This will crucially solve the disparity that currently exists, whereby ethical investments may, in future, be more reasonably referred to as 'ethical'.

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