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Business ethics and ethical investing: from historical, ethical approach to real investments

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Abstract. Business ethics are nowadays widely considered as an integral part of organizations. The field of business ethics addresses ethical issues between organizations and the public, examines moral business requirements, principles of justice, boundaries of integrity, moral obligations, privilege assignment, and so on. This article analyses historical issues of business ethics and focuses on ethical investment problematic. Using the historical and theoretical approach, we are trying to evaluate the development of business ethics. With the help of technical analysis indicators and standard deviation, we try to compare the trends of ethical investments and ordinary investments in the stock market during different crises.

Keywords. business ethics, ethical investing, stock market.

1. Introduction

Business ethics covers lots of things, from corporate governance to corporate social responsibility. Following ethical guidance, trust is developing between the employees and management. Trust in such a way is touched in the field of public and corporation. Business ethics helps to ensure a more productive workplace (Bhattacharyya, 2015). Business ethics can be described as an art and science for maintaining a harmonious relationship with society. (Milton, 2010). Challenges of business ethics were analyzed by Adeleye et al. (2020), Melé et al. (2017), and other authors.

Ethical investing very often is explained as an investment decision where the primary goal is not to reach higher returns but where ethical values are the main goal. Many investment companies, commercial banks, central banks, pension funds, and other financial institutions seek to invest in socially responsible companies and financial instruments. Socially responsible companies respect their employees, create health products and services, and not participate in unethical business. Alice Martini (2019) analyzed the historical development of socially responsible investing and concentrate on the ethical issues related to the European Union. Issues related to socially responsible investments were analyzed in the research works of Revelli (2016), Auer and Schuhmacher (2016).

Ethical investing as a topic is not analyzed very deeply, but lately, it becomes very popular. Yufen et al. (2020) made a research-related with ethical investment and portfolio performance costs. Wajahat et. (2020), Landi and Sciarelli (2019) tried to identify how ethical issues can help to reach better financial results. Other authors analyzed ethical investment problems related to the banking sector (Barigozzi and Tedeschi, 2019; Climent, 2018) or investment funds

(Abdelsalam et al., 2017). Ferri and Acosta (2019), Bosch-Badia et al. (2018) covered issues related to ethical and sustainable investments.
Starting from business ethics, we want to focus on ethical investing, which gets popular day by day. This research aims to identify the development of business ethics and its role in the investment environment by comparing ethical investments with ordinary ones.
Firstly, we present the main concepts of business ethics, focusing on historical trends. Then we shortly identify the main issues related to ethical investments. In the methodological part, we present the main methods of technical analysis and statistics we are using. Finally, we compare the trends in ethical investments with the ordinary ones.

2. Literature review

Over the last two centuries, the ethical debate has contrasted two general frameworks: one is concentrated on duties (a deontological view). The other is focused on goals and objectives (the teleological argument). A shift in the meanings of ethics from responsibilities or work objectives toward values, which form the core and whole of a person and an organization, is, therefore, evident from the literature on ethics (Hart, 2008). Ethical theories arranged as five ethical frameworks (Brown, 2004): *Divine-command ethics* draw what is right and wrong from Divine Decrees as defined by Scriptures and Dogmas; *Consequentialism* looks at consequences of an action or thought and ensures to make that ethical which has the most desirable and favorable outcomes; *Deontological ethics* declare moral duties as ethics; *Virtue or Excellence ethics* are about following deeds and acts which are virtuous, just, compassion-based, and call for caring of others (Durant, 2006). *Relativism, subjectivism, or moral relativism* (Yazdani, 2015) elevates culture and society as the supreme authority in deciding what is right and wrong. Table 1 presents significant ethical thought development in chronological order over a period spanning well over 2000 years.

Table 1. Significant ethical thought development in chronological order

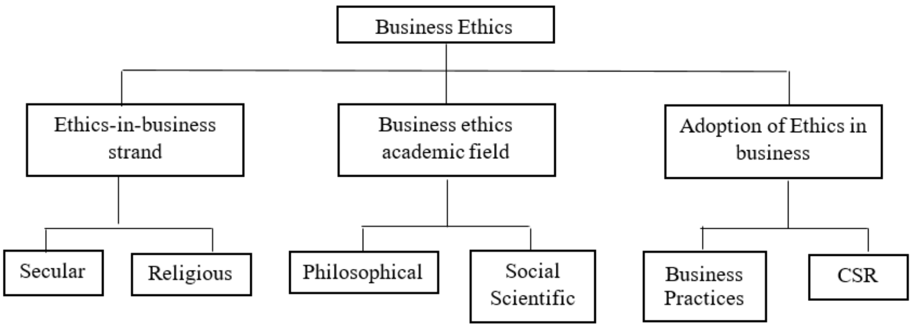
Ethical philosopher	**Period**	**Major ethical stance**
Confucius	600 years before and after Common Era	Deontological and virtue ethics
Plato	600 years before and after Common Era	Divine-command virtue ethics
Aristotle	600 years before and after Common Era	Virtue ethics
St. Augustine	600 years before and after Common Era	Divine-command ethics
Prophet Muhammad	600 years before and after Common Era	Divine-command ethics
Niccolo Machiavelli	1469–1527	Consequentialist utilitarian ethics
Thomas Hobbes	1588–1679	Aristotelian virtue ethics based on materialism
Immanuel Kant	1724–1804	Deontological ethics
Jeremy Bentham	1748–1832	Consequentialist utilitarian ethic
John Stuart Mill	1806–1873	Consequentialist utilitarian ethics
Friedrich Nietzsche	1844–1900	Master and slave morals (Consequentialist and utilitarian ethics)

G. E. Moore	1873–1958	Metaethics
W. D. Ross	1877–1970	Kantian deontological ethics
John Rawls	1921–2002	Deontological ethics
Alasdair Macintyre	1929	Aristotelian virtue ethics

Source: compiled by the authors, based on Yazdani (2014)

Confucianism placed family, ancestors, and filial obedience at the beacon of ethicality. Taking willing care of the elderly, being kind, peaceful, thrifty, and industrious, and bearing abhorrence to warriors and competition are also the core values of Confucianism (Mustapha et al., 2019). Aristotle's virtue ethics cannot be seen as hindering commercial activities even in the present context. He advocated productive business but condemned artisans' lust and greed to earn as the only objective of work. St. Augustine's theological discourse mixed religion with Platonic philosophy and provided Christianity its philosophical breadth and depth. Prophet Muhammad reformed the ethical system through divine inspiration. The core of his training is emphasis on intentionality and not consequences (Magdy et al., 2020). Machiavelli's ethics are contrastingly different from previous theories. Deception, manipulation, and exploitation are some of the means which he advised to gain power and control, so Machiavellianism or manipulative and over-competitiveness is a standard attitude in the contemporary corporate world. Today's philosophy can be judged by reference by Alasdair Macintyre as "anti-business." He identifies three unethical features of the current economic order: individualism, competitiveness, and exaltation of the market over social forces (Dobson, 2009).
The roots of business ethics lie in philosophy. Ethics in the business and commercial world are mainly drawing from secular and religious philosophies. Different approaches to business ethics lead to the conclusion that business ethics is multidimensional and interdisciplinary. As business ethics theories developed, in business ethics were formed a specific trend: ethics-in-business strand, business ethics academic field, and adoption of ethics in business (figure 1).

Figure 1. Different strands of contemporary business ethics



Source: Wines (2008).

Business ethics as an academic field exhibits the paradoxical treatment of ethics rooted in philosophy but applied, practiced, and taught by social science methodologies. Business ethics is generally manifesting through individual, organizational practices, and specific initiatives like CSR.
The teaching of ethics well knows since Aristotle. Aristotle linked economic education to human goals, noting their relationship to well-being. In his works, he clarifies that wealth is not an end in itself, but a means to something else. Aristotle emphasized that the pursuit of purpose by the nation or city (state) is much more noble, but not by one person. Later, economic science

developed in two directions: consideration of economic, ethical issues in church teaching and academic writing, and another practical technical nature (finance, logistics, and tax administration). In the XVI-XVII centuries, the downfall of interest and profits' restraint were already impeding business and the market. In 1935, M. Robins argued that a logical link between economics and ethics was impossible. The difference between the acknowledged unethical nature of current economic theories and their historical evolution. Positive economic methodology has distanced itself from ethical considerations and even from the viewpoint of economic well-being.

Famous American economist B. Seligman was among the first to speak about the need to change the prevailing economic paradigm. He said the growing mess in the economy calls attention to standards of economic behavior and social goals.

Many authors recall the interdependence of business success and moral strength today. M. Weber linked the development of prosperity, and even capitalism itself, with a factor of ethics and Protestantism. The new ethic of Protestantism, centered on thrift and economy, presupposed the theory of predestination. According to this theory, man's material success is God's grace.

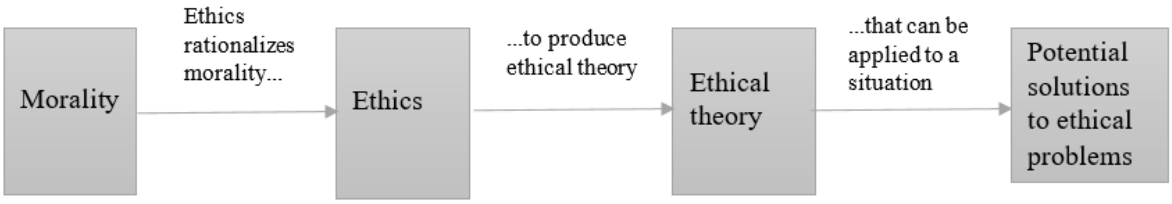
The very nature of the market is not nurturing or upholding human values. On the contrary, the nature of the market depends on the value orientation of society. It is the most appropriate way to expand and promote consumption. Creating business ethics as a work culture concept was born into business giants such as Ford, General Motors, etc.

In this day, business ethics shape a new worldview: from serving the economy to helping the economy as a human being. Business ethics pose a particular challenge - to shape human relation to material values in terms of spiritual values. At present, the leaders of organizations apply different ethical theories based on a personal worldview. It is not necessarily based on one approach's principles - often, it is a combination of several ideas. Besides, all theories are continually changing depending on changing times, organizational development, and other circumstances. In business ethics theories, two ethics levels were formed: micro ethics and macro ethics. Micro ethics deals with specific moral issues within corporations, and macro ethics explores questions of morality in the relationship between the objects of society's socioeconomic system.

The interest in business ethics was primarily in the United States after World War II. In the middle of the 20th century, ethical issues related to business were often discuses theologically. Business ethics, it is sometimes claiming, is an oxymoron (Shadnam et al., 2020). By an oxymoron, we have in mind the bringing together of two contradictory concepts. Business ethics is an oxymoron that suggests that there is not, or cannot be, ethics in business. From this point we conclude, that business is in some way unethical (business is inherently wrong) or that it is amoral (outside of our everyday moral considerations). Also, in common usage, the terms' ethics' and 'morality' are often used interchangeably. In scientific literature, we can find clarification and specific arguments explaining those two terms (Crane et al., 2019):

- Morality is related to the norms, values, and beliefs embedded in social processes, defining right and wrong in the individual or community context.
- Ethics has relations with the study of morality and the application of reason to elucidate specific rules and principles determining morally acceptable action courses. Ethical theories are the codifications of these rules and regulations.

Figure 2. Morality, ethics and ethical theory



Source: Manisha (2011).

All individuals or communities have morality, a basic sense of right or wrong concerning particular activities. Ethics can be described as an attempt to systematize and rationalize morality, typically into generalized normative rules that supposedly offer a solution to a situation of moral uncertainty. The outcomes of codification of these rules are ethical theories (Ivic, 2010). All the mentioned issues are presented in figure 2.

Deontological theory of ethics

Ethics theory that acts, regardless of consequences, are good or bad and results or intentions have no meaning. English sociologist Jeremy Bentham created the term of deontology in the XIX century. This theory prioritizes the sense of duty in human life. Individuals who follow the deontological theory of ethics do not consider their desires and needs.

According to the philosopher Immanuel Kant (1724–1804), a man creates his moral norms through his rational mind. Morality is closely linked to goodwill, and only common-sense decisions gain moral value. According to Kant, a rule that suits one person must apply to all. I. Kant calls the subjective principles of morality based on reason as Maximus. Maximus is as rules of communication ethics: morality and duty (Vasiljeviene et al., 2002).

Theory of ethics utilitarianism

It is a theory of ethics that seeks to optimize human happiness and minimize suffering. The actions that bring the most satisfaction are moral, and those that cause suffering are immoral. The individual must be guided by the principle of benefit, even though morality has fallen out of society. The behavior that benefits most people is considered the best.

Utilitarianism is characterized by basic principles: consequence, utility, hedonism, and social. As an ethical theory, utilitarianism is bounded with the 19th century and the English philosophers Jeremy Bentham and John Stuart Mill. Their works emphasized criteria that measure values: compliance of the action with existing laws and usefulness of the action, and harm done. Theory also emphasizes the importance of quality over quantity.

Theory of justice

The theory of justice is based on the fact that all human beings naturally aspire to live in a society and create social structures for society's proper functioning. The fundamental value of a theory is justice, obedience to laws, which must be applied equally. Laws may not be discriminatory, specific to groups, and may not grant an individual or group exclusive unjustified privileges. One of the most philosophers, John Rolls, attaches importance not to utility but to justice, which is the most important value and institutional ideal of the institutions. The theory of justice publishes the principle by which Socioeconomic inequalities must create the most significant possible benefits for the least privileged.

Ethical investment

Ethical investing is described as an investment policy having the primary goal not to get a higher return but to ensure investor's ethical principles (moral, religious, or social). Investing in a company, investors want the company to treat their employees with respect, their production is healthy, and they act ethically in all circumstances.

Lately, we can find different types of ethical investments. After analyzing various scientific articles, we have noticed that there is no one typology of ethical investments. Usually, multiple sources of information identify the following types of ethical investments: socially responsible investing funds; environmental, social, and governance funds; impact funds; faith-based funds.

3. Methodology

Reaching our goal, we have chosen two different indices. For ordinary stocks, we decided to analyse Stoxx Europe 600 index. This index is designed by STOXX Ltd. and has 600 companies representing large, mid, and small-capitalization entities among 17 European countries. This index covers approximately about 90 percent of the free-float market capitalization of the region. For ethical investing, we chose the Ethical Europe Equity Index. This index includes entities from Developed Europe which have no significant involvement in Weapons, Gambling, Tobacco, and Nuclear. The index contains a maximum of 30 members, which are weighted according to volatility, and adjustments are conducted quarterly. The index is calculated as a price return index in Euro.

The period of our analysis is from 2005 June 30 till 2021 February 12.

We start our quantitative assessment of ethical investments by looking at historical trends. For a better understanding of historical tendencies, we use candlestick graphics.

Risk aspects usually are valued by using statistical parameters. One of the principal risk measures is standard deviation. The volatility of a financial asset is traditionally measured by the standard deviation of its returns. The standard deviation is calculated by

$$\sigma = \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(r_i - \bar{r})^2} \tag{1}$$

where r_i – return in a time step i, n – number of observations in a period.

When the volatility is measured daily, it is a common practice to annualize the volatility and calculate the volatility over a year. Standard deviation is annualized using an equation

$$\sigma * \sqrt{\text{number of periods}} \tag{2}$$

where $\text{number of periods} = 252$ as we calculate standard deviation using daily returns.

The scaling factor 252 approximates the number of trading days in most financial markets.

We use a simple moving average indicator (SMA) for market price volatility smoothing because the SMA indicator allows us to eliminate short-term or insignificant price movements.

SMA is one of the simplest indicators of technical analysis and helps to determine the market trend. SMA is calculated by using the arithmetic average of market prices for the selected period (in this case, the period is 21). The formula of SMA is the following:

$$SMA = \frac{P_1 + P_2 + \cdots + P_{21}}{21} \tag{3}$$

The next step we use in our research is a calculation of relative strength indicators (RSI). An RSI value can range from 0 to 100. This indicator is calculated using the following formula:

$$RSI = 100 - \left(\frac{100}{1 + RS}\right) \tag{4}$$

If the RSI is more than 70, the market is considered overbought. If less than 30 – oversold.

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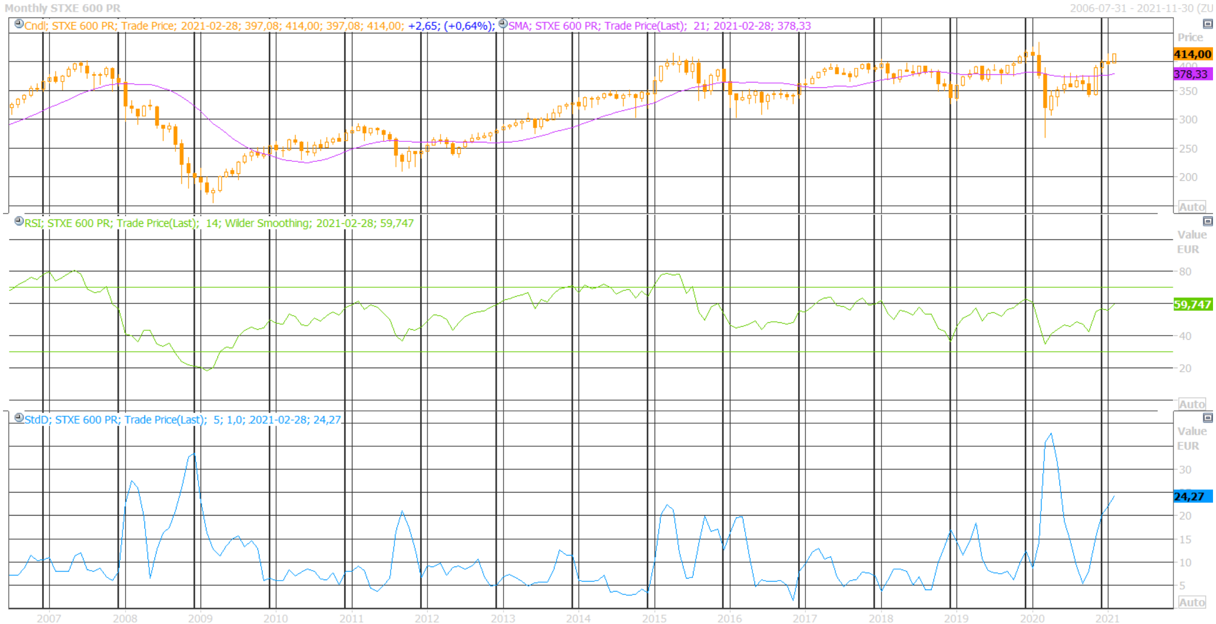
Results and discussion

To check the effect of different stock market crises and ethical investing, we have chosen a more extended period. We aimed to look at the volatility and RSI during the financial crisis in 2008 and during the COVID-19 pandemic period. We identified that the primary measure of the risk – standard deviation – volatility was higher during the COVID-19 pandemic shock in

Figure 3. Stoxx Europe 600 index



Source: created by authors using data of Thomson Reuters Eikon

In figure 3, we present the main tendencies of the Stoxx Europe 600 index. Comparing two different crises, we see that the volatility of the index (standard deviation) was higher during the COVID-19 pandemic shock in March comparing to the volatility in 2008 December when the financial crisis effect was the strongest during the financial crisis. The other interesting aspect is that during the financial crisis, the RSI indicator showed that the market was oversold. At the same time, during the COVID-19 pandemic shock, there was not such a signal. RSI level less than 30 indicates an upside in the market and the growth potential. Volatility in 2020 March was higher compared to the financial crisis, but the level of RSI indicated that the stock market in Europe was adequately valued. But if we look at moving average tendencies and relations with the index market values, we can see that there is a potential for further growth because the real prices crossed the 21 day SMA.

In figure 4, we pointed the tendencies and primary indicators of the Ethical Europe index. There we can see that ethical investments were not so volatile compared with the ordinary stock market. The other aspect is that the volatility of ethical investing during the COVID-19 pandemic shock was much higher than the tendencies during the financial crisis in 2008.

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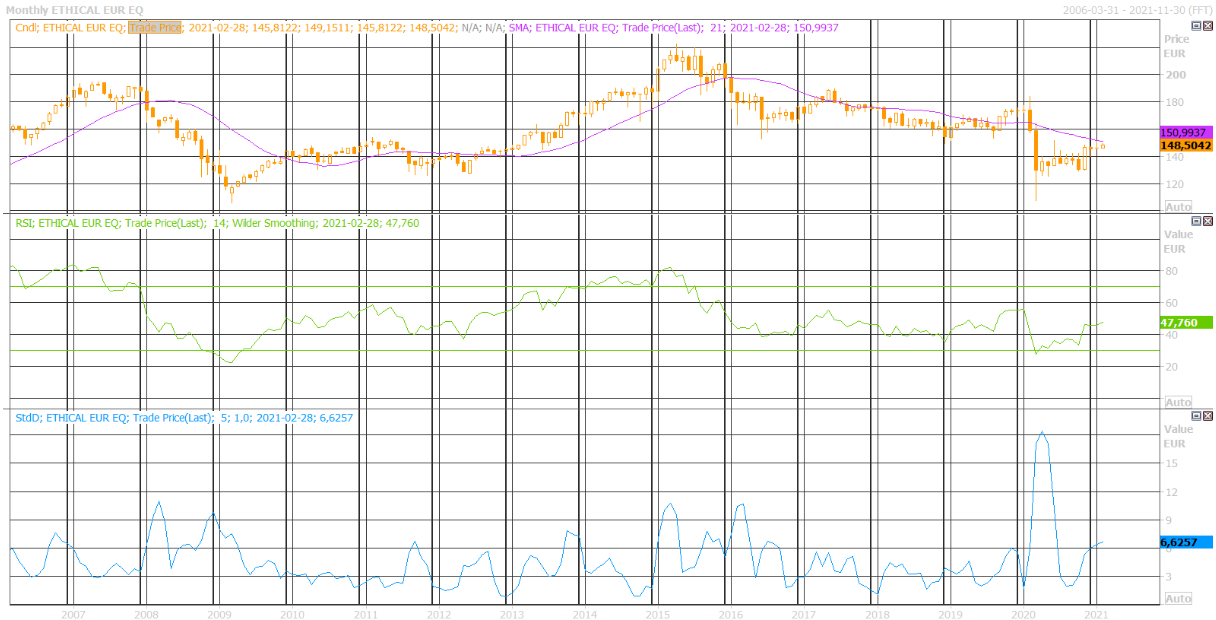
Figure 4. Ethical Europe Equity Index



Source: created by authors using data of Thomson Reuters Eikon

During the financial crisis, ethical investments were undervalued as ordinary investments in stocks. Starting this pandemic year, we see that ethical assets are appropriately valued according to RSI level. SMA does not indicate strong tendencies of increase in the Ethical Europe index market value, but lately, ethical investments have become more popular. We see that lots of portfolio managers are considering including ethical investments into their stock portfolios in practice. Because of higher demand, we forecast that this type of investment will be one of the most attractive investments in 2021 year.

4. Conclusions

Business ethics needs to be understood as a sense of "corporate citizenship." It is a feeling that companies are part of the society in which they operate and that the well-being and health of the community affect their vitality and well-being.

Theory emphasizes expediency in making a decision or performing an action that is judging on the result obtained. The most important are paramount the individual's interests, so the decision will be analyzed the impact this will have on the individual. What is good or bad shows these factors: happiness, self-realization, unity with God.

Some theories work well with each other, and some opposite. It would be difficult to determine which is best suited for today's organizations. Most businesses rely on more than one set of theories, applying the most relevant principles of morality, justice, and performance measurement, action, depending on the person's worldview, common ground, and values.

Ethical investing gets its popularity every day. Despite conceptual issues as concerns ethical investment typology and understanding there is not a big issue for practical decisions to participate in the ethical investing market.

Ethical investments are less risky, less volatile, and more attractive in the period of sustainable economic growth. Our analysis showed that ethical stock investments are less volatile in stressful scenarios to be a useful tool for risk management and diversification purposes.

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