Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 5 Issue 07 July 2022

Article DOI: 10.47191/jefms/v5-i7-05, Impact Factor: 6.274

Page No. 1886-1894

# Developing Conceptual Framework of Ethical Investment Studies

**Abdulloh Mubarok[1], Dien Noviany Rahmatika[2], Budi Susetyo[3], Teguh B. Raharjo[4], Novi Mardiani[5]**

[1,2,3,4,5]Universitas Pancasakti Tegal, Indonesia

**ABSTRACT:** The study aims to conduct a conceptual review of ethical investment research based on Widyawati (2019). Through the conceptual review method, the research obtained 70 relevant articles. The results of the literature analysis conclude that there is a development of ethical investment studies and in general it is divided into four main themes, namely (i) investor behavior studies, (ii) ethical investment development studies, (iii) ethical investment performance studies and (iv) ethics and religious-based investment studies (stock of sin stocks category). The studies of investor behavior focuses on examining the characteristics of ethical investors such as motivation, investment patterns and the basis for making investment decisions. The studies of ethical investment development emphasizes the description of ethical investment in a particular area, the argumentation of ethical investment theory and the role of participants in the ethical investment market, including ethical investment mechanisms, namely screening and shareholder activism. The studies of ethical investment performance focus on the performance by comparing the return on ethical investment with its benchmark (nonethical investment). Meanwhile the studies of ethical and religious-based investment (stock of sin stocks category) focuses on testing implementation of negative screening of sin stocks, testing the performance of sin stocks and testing the relationship between sin stocks with certain themes.

**KEYWORDS:** ethical investment studies, investor behavior studies, ethical investment development studies, ethical investment performance studies, sin stocks

## INTRODUCTION

Ethical investment has experienced very fast and high growth in the last decade (Renneboog et al., 2007b; Albaity and Ahmad, 2011; Pena and Cortez, 2017; Mubarok, 2022). The growth and development of ethical investment appear, both at the global level and in Indonesia (Mubarok, 2022). At the global level, The Global Sustainable Investment Alliance (GSIA), an international institution in the field of ethical investment, recorded the value of ethical investments assets, particularly in the world's major markets (Europe, United States, Japan, Canada and Australia and New Zealand) reaching $22.89 trillion in 2016. The number increased significantly by 34.05% to $30.683 trillion in 2018. Meanwhile in Indonesia, the growth and development of ethical investment can be seen from the increasing number of ethical-based stock indexes. As of the end of 2019, there were 5 indices categorized as ethical indexes out of 34 indices issued by the IDX. The indexes are the Business-27 Index as an corporate governance-based index, the Sri-Kehati Index as a sustainability-based index (Rafik and Lantara, 2016), the Jakarta Islamic Index (JII), the Indonesian Sharia Stock Index (ISSI) and the Jakarta Islamic Index. 70 (JII70), as a religious (sharia) based index (Mubarok, 2022)

The growth of ethical investment has attracted the interest of academics to conduct studies and research. This can be seen, both from the large number of public discussions (von Wallis and Klein, 2015) and from the academic literature (Sandberg et al. 2008; von Wallis and Klein, 2015). There are several arguments for the need for ethical investment research. First, the goal of investors in ethical investment activities clearly deviates from the rational economic goal of maximizing profits. Ethical investors who have social awareness will obtain non-financial utility by owning assets that are in accordance with ethical and social values. Second, investors still want to invest in the type and do not divert their funds to charity. The shows that they still want to improve their financial utility in the form of positive risk-adjusted returns (Renneboog et al., 2007b).

Ethical investment research has developed since the 1970s (Ortas and Moneva, 2010), especially after Milton Friedman published an article in The New York Times magazine entitled “The Social Responsibility of Business is to Increase its Profits” (Forte and Miglietta, 2011). The first ethical investment research was conducted by Grossman and Sharpe (1986) who analyzed the performance of ethical portfolios and the relationship between financial investments and ethical issues. The analysis was conducted on shares of companies in South Africa, as a result of the response to apartheid, namely a US social movement that tried to convince churches and charities to divest from company shares in South Africa. After that, there are other researchers such as Luther et al., (1992), Hamilton et al. (1993), Gregory et al., (1997), Orlitzky et al., (2003), and Bauer et al. (2005) (Forte and Miglietta, 2011).

Widyawati (2019) reviewed the literature on SRI research (ethical investment) and concluded that there are three main themes of ethical investment studies (i) Investor behavior. The theme focuses on examining the characteristics of ethical investors such as motivation, investment patterns and the basis for making investment decisions. (ii) Development of ethical investments. The second theme emphasizes the description of ethical investment in a particular area, the arguments for ethical investment theory and the role of participants in the ethical investment market, including ethical investment mechanisms, namely screening and shareholder activism. (iii) ethical investment performance. The theme of ethical investment performance focus on performance which is calculated by comparing the return on ethical investment with its benchmark (nonethical investment).

In general, the classification of the main studies themes of ethical investment (SRI) by Widyawati (2019) follows the concept of ethical investment based on environmental, social and governance (ESG) criteria. Meanwhile, beside to the ESG criteria, the concept of ethical investment also bases other criteria such as ethic (social responsibility-based norms) (Cowton, 1994, 2018) and religious (Dunfee, 2003; Gillet and Salaber-Ayton, 2017). Ethic and religious criteria are usually proxied by the stocks of sin stocks category, namely stock of companies from industries that are contrary to ethics and religion such as stock of companies related to alcohol, tobacco and gambling. This study tries to complement Widyawati (2019), namely by reviewing additional literature related to ethical and religious-based ethical investment studies, especially studies in the sin stocks category.

## LITERATURE REVIEW

Mubarok (2022), after reviewing the ethical investment literature, explained that the term ethical investment is synonymous with the term socially responsible investments (SRI) (Sandberg et al., 2009; Cowton, 2018). Even Michelson et al. (2004) use the two terms interchangeably. Initially, the community used the term ethical investment and then slowly replaced it with the term social responsibility investment (Sparkes 2001). The term ethical investment is more familiar to the British public while the American public is more comfortable with the term socially responsible investment (Reich et al., 2001; Michelson et al., 2004)

Some authors use other terms besides the two terms. Schueth (2003) uses the terms “values-based investing”, “social investing”, “socially aware investing”, “socially conscious investing” and “mission-based or mission-related investing”. Magnússon and Dyremyhr (2011) use the terms “values-based investing”, “corporate responsible investments” and “green, environmental or value-based investing”. von Wallis and Klein (2015) use the term “values-based investing”. Forte and Miglietta (2011) and Ortas and Moneva (2010) use the term “sustainable investment”. Sandberg et al. (2009) used the terms “social investing”, “responsible investment”, “sustainable and responsible investment”, “socially and environmentally responsible investment” and “governance and socially responsible investment”. While Al-Awadhi (2017) uses the term "investing based on social norms".

However, some academics view that the term socially responsible investment does not cover the same aspects as the term ethical investment. The term socially responsible investment has a narrower scope, only covers social aspects excluding ethical aspects (Magnússon and Dyremyhr, 2011). While ethical investment, besides covering the social responsibility aspects, it also includes ethical aspects based on religious beliefs (Mazouz et al. 2016; Gillet and Salaber-Ayton, 2017). Therefore, the term “ethical investment” is more suitable and credible for the mainstream financial community, including institutional investors such as pension funds and mutual funds, than the term socially responsible investment (Sandberg et al., 2009; Magnússon and Dyremyhr, 2011).

Cowton (1994) defines ethical investment as an investment in which the selection and management of portfolio is based on ethical and social criteria. Humphrey and Lee (2011) define ethical investment as an investment approach that considers ethical, religious, social or other normative selections in investment decision making. Meanwhile, Dunfee (2003) describes ethical (social) investment as an investment strategy using non-financial criteria, namely social or religious. For social criteria, Rockness and Williams (1988) elaborated further which included environmental protection, equal employment opportunities, treatment of employees, relations with repressive regimes, product quality and innovation, and defensive contracts. Sandberg et al. (2009), after reviewing various terms and definitions of ethical investment, conclude by stating that most investors generally define ethical investment practices (SRI) by emphasizing the importance of corporate governance, social and environmental (ESG) issues in their investment process (investment analysis or portfolio selection). Referring to the definition of ethical investment according to Dunfee (2003), Sandberg et al. (2009), Humphrey and Lee (2011) and Cowton (2018), author define ethical investment as an investment that in the decision to form an investment portfolio based on the integration of several non-financial criteria including ethics, social, environmental, governance and religious.

**Developing Conceptual Framework of Ethical Investment Studies**

Other academics define ethical investing by including economic (financial) factors. Michelson et al. (2004), for example, defines ethical investment as the integration of personal values, social considerations and economic factors in investment decisions. Financial returns are still important though not the only factor driving investment. Cowton explained that the essence of ethical investing is to use moral values and conventional financial criteria together in decisions to buy, hold and sell shares as part of an investment portfolio.

Regarding the financial aspects in ethical investment definition, Louche and Lydenberg (2006) found differences in definitions between the United States and Europe. The United States definition does not include a financial aspect, while the European adds a financial aspect. The US definition of ethical investment is more value driven, while the European definition is more pragmatic, emphasizing the importance of social, environmental and financial equality. The emphasis on the equality of three factors is influenced by the concept of sustainable development, so ethical investment in Europe is also known as sustainability or a triple bottom line (planet, people and profits) (Louche and Lydenberg, 2006). The differences in ethical definitions of the United States and Europe illustrate the cultural differences between the two societies. The definition of ethical investment in the United States is based on confrontation between investors and companies, while the definition of ethical investment in Europe is based on cooperation and persuasion (Sandberg et al., 2009).

Ethical investment is generally divided into two types, namely socially responsible investment and faith-based investment (fund) (Gillet and Salaber-Ayton, 2017; Mazouz et al., 2016). Socially responsible investment bases investment decisions on environmental, social and governance factors, meanwhile faith-based ethical investors base their investment decisions on the doctrine of certain religions such as Christianity and Islam (Gillet and Salaber-Ayton, 2017).

## RESEARCH METHODS

The research design uses a literature review study, namely by identifying, evaluating and synthesizing research results and thoughts generated by researchers and practitioners. The results of the researches and thoughts are usually published through various sources such as journals, books, the internet, and other libraries.

The literature review technique stage begins with searching and finding relevant literature with the keywords “ethical investment”, “socially responsible investments”, “investor behavior”, “ethical investment development”, “ethical investment performance”, and “sin stocks” through search engines "google scholar" and "search google or a type URL". Articles or journals that match the criteria are then downloaded. Next, evaluate the literature obtained according to the research problems. Finally, review and draw conclusions through the process of interpretation, analysis and synthesis of the literature.

## RESULTS AND DISCUSSION

The process of collecting and reviewing literature of the ethical investment research obtained 70 relevant articles on various themes. In general, the investment research themes are divided into four main themes, of which the first three themes base Widyawati (2019). The four themes are (i) investor behavior, (ii) ethical investment development, (iii) ethical investment performance and (iv) ethical and religious-based investment (stocks of the sin stocks category).

## INVESTOR BEHAVIOR STUDIES

Investor behavior studies focuses on examining the characteristics of ethical investors such as motivation investor, investor investment patterns and investor decision making. The theme is generally based on the assumption that ethical investment investors are different from conventional investment investors. Rosen et al. (1991), for example, found ethical investors to be younger and more educated than other investors. Hood et al. (2014) found that female investors prefer companies that have progressive labor policies about women and minorities. Meanwhile, younger investors, beside considering that, also avoid companies that have a bad environmental record.

For the motivational focus, studies findings show that both financial and non-financial motivations are proven to underlie ethical investment decisions. Cortez et al. (2009), for example, found that investors who wish to own ethical mutual funds in Europe add social criteria as an investment choice without ignoring financial performance. Beal et al. (2005) found that there is a trade-off between financial returns and psychological returns for some investors. Psychic return is a return in the form of increased happiness (satisfaction). Meanwhile, Nilsson (2009) found that the three segments of investors, namely “profit-oriented investors”, “socially responsible investors” and “profit-oriented and socially responsible investors” consider financial returns and social responsibility when making ethical investment decisions.

Several researchers have also examined the role of public belief systems in ethical investing. Hong and Kacperczyk (2009), for example, found that social norms motivate institutional investors to avoid stocks of the sin stocks category. In contrast, the findings of Cahan et al. (2017) concluded that social norms motivate institutional investors to improve CSR performance. As for

Dyck et al. (2019) concluded that investors seek to improve environmental and social performance when they come from areas where the community believes in the importance of environmental and social issues.

For focus on investment patterns, the studies found similarities in investment patterns of individual investors and institutional investors, especially long-term institutional investors. Cox et al. (2004), for example, investigated the investment patterns of institutional investors in the UK in response to corporate social performance (CSP). One of his findings concluded that long-term institutional investors reject companies with poor social performance and remove them from their portfolios. The pattern of long-term investors is the same as the pattern of individual investors (Widyawati, 2019).

Regarding investment decision making, several surveys conclude that ESG principles are the basis for decision making. For example, survey of the RBC Global Asset Management concluded that 70% of institutional investors apply ESG principles in their decision making (Bradford, 2019). Survey of Morrow Sodali (2020) found 100% of respondents agreed that ESG integration became an integral part of mainstream investment decision making. Meanwhile, the results of Eccles and Klimenko's interview regarding the consideration of the ESG value in investing concluded that ESG is a top of mind of all respondents (Eccles and Klimenko, 2019)

**ETHICAL INVESTMENT DEVELOPMENT STUDIES**

Ethical investment development studies focuses on the description of ethical investment in a particular area, arguments of ethical investment theory and the role of participants in the ethical investment market, including discussion of the mechanisms (strategies) of ethical investment development (negative, positive screening and shareholder activism). Several authors investigate the development of ethical investment in a certain country. Schueth (2003), for example, describes the practice and contribution of each investment strategy to the development of ethical investment in the United States (US). In 1999, ethical investment assets (SRI) in the US were valued at $2,159 billion, of which $1.232 billion was contributed through screening strategies, $657 billion through shareholder activism strategies, $265 billion through screening and shareholder activism and $5.4 billion through community development investments. While Capelle-Blancard and Monjon (2014) recorded ethical investment assets in France of €20 billion in 2007. The total investment assets were mostly obtained through a best-in-class (screening) strategy.

Several researchers have attempted to explain the arguments underlying the existence of ethical investments such as Angel and Rivoli (1997) (Vanwalleghem, 2013), Heinkel et al. (2001) (Renneboog et al., 2007a; Vanwalleghem, 2013), Barnea et al. (2005) (Renneboog et al., 2007a), Derwall et al. (2011) (Claassen, 2011) and Easton and Pinder (2018). Easton and Pinder (2018) explain several mainstream theories in the context of ethical investment (SRI) such as Markowitz's modern portfolio theory, stakeholders theory and agency theory. Angel and Rivoli (1997), Heinkel et al. (2001) and Barnea et al. (2005) tried to make a mathematical model to prove that the presence of ethical investors can change the behavior of companies from unethical companies to ethical companies.

While Derwall et al. (2011) describes two segments of investors in ethical investing, namely value-based investors and profit-based investors. Value-based investors use negative screening by avoiding unethical stocks. Meanwhile, profit-based investors use positive screening by choosing stocks with high CSR performance that will affect the company's financial profits. Derwall et al. (2011) also propose two hypotheses of the relationship between ethical investment (SRI) and stock prices, namely the "shunned-stock hypothesis" and the "errors-in-expectations hypothesis".

Regarding the role of participants in ethical investment markets, it appears that both individual investors and institutional investors have a role in developing ethical investment (Rosen et al. 1991). For institutional investors, the findings of Guay et al. (2004) explained that NGOs have the opportunity to influence the ethical behavior of companies either directly, indirectly or through interaction with the investment community. Hong and Kacperczyk (2009) found that the sin stocks category was less owned by pension fund institutions but not by mutual fund investors. Cahan et al. (2017) found that share ownership by pension institutions, universities, charitable and religious institutions and non-profit organizations has a positive effect on increasing CSR performance. As for Cox et al. (2004) found that life insurance companies invest in companies that implement CSR, while charitable institutions are not proven to invest in the companies.

One of the important issues in ethical investment development research is the diversity of investment mechanisms (strategies) (Widyawati, 2019). Ethical investment strategies, in particular the three main strategies, namely negative screening, positive and activism, have always emerged as a research theme for more than 35 years (Viviers and Eccles, 2012). One of research field of ethical investment strategy focuses on proving the practice of implementing ethical investment strategies. That is trying to find empirical evidence whether ethical investors use various investment strategies in particular negative screening strategies, positive screening and shareholder activism.

The research among others was conducted by Hong and Kacperczyk (2009) and Cahan et al. (2017). Hong and Kacperczyk (2009) conducted by proposing the hypothesis that the stock of sin stocks category should be owned in a smaller proportion by ethical institutional investors. The research found that stocks in the sin stocks category are less owned by institutional investors who are subject to pressure from social norms (ethical institutional investors). The study of Hong and Kacperczyk (2009) is part of the discussion of negative screening strategies. This is in accordance with the explanation of Cahan et al., (2017) that the negative screening that Hong and Kacperczyk (2009) tested was only one dimension of socially responsible investment (ethical investment).

Research on implementation of positive screening and shareholder activism strategies was conducted, among others, by Cahan et al. (2017). Cahan et al. (2017) examine whether ethical institutional investors apply positive screening and shareholder activism related to CSR. The study found a positive relationship between CSR performance and the level of ownership of ethical institutional investors. Another finding explains that the increase in share ownership by ethical institutional investors is positively related to the increase in CSR performance. Based on the two findings, Cahan et al. (2017: 506-507) explains in general the research results show that ethical institutions apply positive screening and activism related to CSR.

**ETHICAL INVESTMENT PERFORMANCE STUDIES**

Ethical investment performance is a dominant theme in ethical investment research (Widyawati, 2019). Most research on ethical investment performance is calculated by comparing returns on ethical investments with their benchmarks (nonethical investments). The aim is to find out whether the ethical investment performance is higher, lower or there is no difference (Ortas and Moneva, 2010). There are prediction that ethical investment returns are lower than non-ethical investments. This is because the ethical investment (portfolio) is formed with certain non-financial criteria which makes diversification lacking and risk sharing limited.

Several researchers such as Capelle-Blancard and Monjon (2014), Revelli and Viviani (2013) and von Wallis and Klein (2015) have tried to review a number of academic papers that compare the performance of ethical and non-ethical investments. Revelli and Viviani (2013) reviewed 161 research articles for the period 1972 – 2009. The results explained 40 studies found positive performance (performance of ethical investments was higher than performance of nonethical investments), 41 studies found negative performance (performance of ethical investments was lower than performance of non-ethical investments) and 80 studies found no difference (neutral).

Capelle-Blancard and Monjon (2014) reviewed more than 50 academic papers during the period 1992 – 2009 and most concluded that there was no difference between ethical investment performance and nonethical investment performance. There are only 7 researchers found ethical investment performance lower than investment performance. While 1 peper concluded that ethical investment performance is higher than non-ethical investment performance. Meanwhile, von Wallis and Klein (2015) reviewed 35 empirical studies during the period 1986 – 2012 and found 14 studies concluded ethical investment performance was higher, 6 studies was lower and 15 studies was no difference in performance.

Another focus of ethical investment performance research is to analysis the impact of various screenings on ethical investment performance. The focus of the research is based on the argument that ethical investments use different screenings that reflect the criteria in selecting the companies (Pena and Cortez, 2017). Through screening, ethical investors then limit their investment only to companies that are involved in social activities according to certain stakeholder issues, or to companies that are not involved in activities or products that do not have social responsibility (Pena and Cortez, 2017). Screening may exclude not only specific companies, but entire industries or even sectors of the economy. The exclusion have significant implications for the financial performance of certain investment portfolios (Barnett and Salomon, 2006).

Related to studies of the impact of various screenings on ethical investment performance, the researcher tray to relates various dimensions of screening to the financial performance. The dimensions of screening such as screening intensity, screening type, sectoral and transverse screening (Pena and Cortez, 2017). Regarding screening intensity, Pena and Cortez (2017) found a significant impact of screening intensity on performance. Ethical investments with stricter screening intensity have better returns to certain limit, after which the returns decrease. This result contrasts with Barnett and Salomon (2006) who found financial returns decreased initially, but then increased again when the number (intensity) of screening reached a maximum (curvilinear relationship).

While with broader data (United States, Europe, Asia-Pacific and Africa), Renneboog et al. (2007a) found that an increase of two standard deviations in screening intensity resulted in a 2.6% abnormal return per year. For the case of the Australian market, Humphrey and Lee (2011) find weak evidence that ethical investments (mutual funds) with more stringent screening provide better performance. The findings of Humphrey and Lee (2011) are reinforced by Koop (2013), but in contrast to Capelle-Blancard and Monjon (2014). Capelle-Blancard and Monjon (2014) find evidence that higher screening intensity actually reduces the performance of ethical investments (mutual funds), particularly in certain types of industry screening. For the sectoral screening dimension, Pena and Cortez (2017) found a positive relationship in the case of Europe (other than the UK) and Scandinavia, while for the UK case, sectoral screening was negatively related financial performance. Meanwhile, for the dimensions of the type of screening, studies found varied results. The public relations-based screening (Barnett and Salomon,

2006) and The corporate governance-based screening (Renneboog et al., 2007b) were positively related to financial performance, while the environmental-based screening (Barnett and Salomon, 2006; Renneboog et al., 2007b), the employment-based screening (Barnett and Salomon, 2006) and certain industries-based screening, such as avoidance of sin stocks (Capelle-Blancard and Monjon, 2014), are negatively related to financial performance.

**ETHICAL AND RELIGIOUS-BASED INVESTMENT STUDIES (STOCK OF SIN STOCKS CATEGORY)**

In general, the classification of the main studies themes of ethical investment (SRI) by Widyawati follows the concept of ethical investment based on environmental, social and corporate governance (ESG) criteria. Meanwhile, in addition to the ESG criteria, the concept of ethical investment also bases other criteria such as ethic (social responsibility-based norms) (Cowton, 1994, 2018) and religious (Dunfee, 2003; Gillet and Salaber-Ayton, 2017). Social norm ethic and religious criteria are usually proxied by stocks of sin stocks category, namely stocks from companies that do not comply with ethics such as stock in companies related to alcohol, tobacco and gambling. The focus of studies on stocks of sin stocks category includes testing the application of negative screening for stocks of sin stocks category, testing the performance of sin stocks and testing the relationship between sin stocks with certain themes.

Hong and Kacperczyk (2009), Nofsinger et al, (2016) and Hsu et al. (2016) generally find institutional investors to avoid stocks in the sin stocks category, even though with different motives. Some are motivated by social norms (Hong and Kacperczyk, 2009), others are motivated by economic incentives (Nofsinger et al, 2016). Regarding financial performance, Trinks and Scholtens (2017) and Liston and Soydemir (2010) found that the performance of the sin stocks category was higher than the market. This finding shows that investors tend to ignore stocks in the sin stocks category because they are against social norms and demand a higher rate of return if they are willing to own the stock (Kumar and Page, 2014).

Other studies relate the stock of sin stocks category with the accounting field. Kim and Venkatachalam (2011), for example, found that companies in the sin stocks category had better financial reporting quality than companies in the non sin stocks category. This can mean that the company's management is still trying to disclose the financial statements properly. Investor avoidance of the stock does not have an impact on the decline in the quality of financial reporting. While Leventis et al. (2013) found an increase in audit fees for companies in the sin stocks category. This finding concludes that auditors seem to respond to the risk of companies in the sin stocks category because against social norms. This response was followed up by expanding audit procedures and consequently increasing the cost of auditing the company's financial statements.

The determination of stocks of the sin stocks category is not only based on social responsibility-based norms, but also religious-based norms (Al-Awadhi and Dempsey, 2017). Several religious-based stock studies in the category of sin stocks focus on testing investor behavior. Al-Awadhi and Dempsey (2017), for example, found that investors in the Gulf Cooperation Council (GCC) capital market tend to ignore stocks of the sin stocks category (non-Islamic stocks) compared to Islamic stocks. Meanwhile, regarding lottery-type stocks, investors own more of these stocks than Islamic stocks (Al-Awadhi, 2017). By using the capital markets in 12 in European countries, Salaber (2013) found that the stocks price of the sin stocks category depreciated when they were in a community that was mostly Protestant.

Ethical investment research with the criteria of religious also analyzes stock portfolios or mutual funds formed based on religious principles. Liston and Soydemir (2010), for example, analyzed the comparison of stock performance in the categories of sin stocks and faith-based stocks. The faith-based stocks are proxied using "the Ave Maria Fund" mutual funds, namely mutual funds formed based on the principles of the Catholic religion. The study found that the return on faith-based stocks was lower than stocks of the sin stocks category. While Al-Awadhi et al. (2018) found the return of Islamic stocks is higher than non-Islamic stocks.

Other authors analyzed the relationship between stock added and removed in a faith-based ethical index with stock returns. The authors analyzed in several themes such as stock performance (price/index) (Hassan and Girard, 2010; Lusyana and Sherif, 2017), responses to the revision index (Ng and Zhu, 2016), the impact of religious beliefs on the behavior of institutional investors (Golombik et al., 2011) and information content (Mazouz et al., 2016; Rahmasuciana et al., 2016; Utami and Mubarok, 2016).

**CONCLUSION**

Ethical investment studies have developed since the 1970s, particularly since the issue of corporate social responsibility emerged. It was Grossman and Sharpe (1986), researchers who first tested ethical investment, namely analyzing ethical portfolio performance and the relationship between financial investments and ethical issues. Grossman and Sharpe (1986) analyzed the performance of corporate stocks in South Africa, as a result of the response to apartheid: a US social movement that tried to convince churches and charities to divest from corporate stock in South Africa.

## Developing Conceptual Framework of Ethical Investment Studies

Thus far, there are at least four main themes of ethical investment studies: (i) Investor behavior studies. The theme of this studies focuses on examining the characteristics of ethical investors such as motivation, investment patterns and the basis for making investment decisions. (ii) development of ethical investments studies. The second studies theme emphasizes the description of ethical investment in a particular area, the arguments for ethical investment theory and the role of participants in the ethical investment market, including ethical investment mechanisms, namely screening and shareholder activism. (iii) ethical investment performance studies. The studies theme focuses on performance which is calculated by comparing the return on ethical investment with its benchmark (nonethical investment). (iv) Ethical and religious-based investment studies (stock of sin stocks category). The theme of the studies focuses on testing the implementation of negative screening to stocks of the sin stocks category, testing the performance of sin stocks and testing the relationship between sin stocks with certain themes.

**REFERENCES**


1) Al-Awadhi, A. M. (2017). *Essays on Religious Beliefs and Stock Market Outcomes*. A Thesis. School of Economics, Finance and Marketing College of Business RMIT University. https://researchbank.rmit.edu.au/view/rmit:162003.
2) Al-awadhi, A. M., Bash, A., Al-mutairi, A. F. dan Al-awadhi, A. M. (2018). Returns of Islamic Stocks in Saudi Arabia: Segmentation and Risk-Aversion. *International Journal of Economics and Financial Issues*, *8*(2), 238–242.
3) Al-Awadhi, A. M. dan Dempsey, M. (2017). Social Norms and Market Outcomes : The Effects of Religious Beliefs on Stock Markets. *Journal of International Financial Markets, Institutions & Money*. https://doi.org/10.1016/j.intfin.2017.05.008
4) Albaity, M. dan Ahmad, R. (2011). Return performance and leverage effect in Islamic and socially responsible stock indices evidence from Dow Jones (DJ) and Financial Times Stock Exchange (FTSE). *African Journal of Business Management*, *5 (16)*, 6927–6939. https://doi.org/10.5897/AJBM10.1063
5) Angel, J. J. dan Rivoli, P. (1997). Does Ethical Investing Impose A Cost Upon The Firm A Theoritical Perspective. *The Journal of Investing*, *Winter*, 57–61. https://doi.org/10.3905/joi.1997.57
6) Barnea, A., Heinkel, R. dan Kraus, A. (2005). Green investors and corporate investment. *Structural Change and Economic Dynamics*, *16*, 332–346. https://doi.org/10.1016/j.strueco.2004.04.002
7) Barnett, M. L. dan Salomon, R. M. (2006). Beyond dichotomy: The curvilinear relationship between social responsibility and financial performance. *Strategic Management Journal*, *27*(11), 1101–1122. https://doi.org/10.1002/smj.557
8) Beal, D. J., Goyen, M. dan Phillips, P. (2005). Why do we invest ethically? *Journal of Investing*, 14(3), 66–77
9) Bradford, H. (2019). 70% of institutional investors apply ESG to investment decisions – survey. https://www.pionline.com/esg/70-institutional-investors-apply-esg-investment-decisions-survey
10) Cahan, S. F., Chen, C. dan Chen, L. (2017). Social Norms and CSR Performance. *Journal of Business Ethics*, *145*(3), 493–508. https://doi.org/10.1007/s10551-015-2899-3
11) Capelle-Blancard, G. dan Monjon, S. (2014). The Performance of Socially Responsible Funds: Does the Screening Process Matter? *European Financial Management*, *20*(3), 1–43. https://doi.org/10.2139/ssrn.1734764
12) Claassen, D. B. (2010). *Sin Stocks Returns & Collectivism versus Individualism* (Issue April). Thesis. International Economics and Finance, Tilburg University, Amsterdam.
13) Cortez, M. C., Silva, F. dan Areal, N. (2009). The performance of European socially responsible funds. Journal of Business Ethics, 87(4), 573–588
14) Cowton, C. J. (1994). The Development of Ethical Investment Products. In A. R. Prindl & B. Prodhan (Eds.), *Ethical Conflicts in Finance* (pp. 213–232). Blackwell Publishers,.
15) Cowton, C. J. (2018). Socially Responsible Investing. In A. Lewis (Ed.), *The Cambridge Handbook of Psychology and Economic Behaviour* (pp. 285–304). Cambridge University Press. https://doi.org/10.1017/9781316676349.010.
16) Cox, P., Brammer, S. dan Millington, A. (2004). An Empirical Examination of Institutional Investor Preferences for Corporate Social Performance. *Journal of Business Ethics*, 52: 27–43
17) Derwall, J., Koedijk, K. dan Ter Horst, J. (2011). A tale of values-driven and profit-seeking social investors. *Journal of Banking and Finance*, *35*(8), 2137–2147. https://doi.org/10.1016/j.jbankfin.2011.01.009
18) Dunfee, T. W. (2003). Social Investing : or Backwater ? *Journal of Business Ethics*, *43*(3), 247–252.
19) Dyck, A., Lins, K. V., Roth, L. dan Wagner, H. F. (2019). Do institutional investors drive corporate social responsibility? International evidence. *Journal of Financial Economics*, *131*(3), 693–714. https://doi.org/10.1016/j.jfineco.2018.08.013
20) Easton, S. dan Pinder, S. (2018). Theory and empirical evidence on socially responsible investing and investment performance: Implications for fund trustees and their members. *ACFS Commissioned Paper Series*. Monash University.
21) Eccles, R. G. dan Klimenko, S. (2019). The investor revolution. *Harvard Business Review*, *2019*(May-June), 106–116.
22) Forte, G. dan Miglietta, F. (2011). A Comparison of Socially Responsible and Islamic Equity Investments. *SSRN Electronic*

*Journal*, *21*(21). https://doi.org/10.2139/ssrn.1819002

23) Friedman, M. (1970). The Social Responsibility of Business Is to Increase Its Profits. *The New York Times Magazine*, 1-6. https://www.bnicapital.ch/files/friedman.pdf.
24) Gillet, P. dan Salaber-Ayton, J. (2017). The recent development and performance of ethical investments. In *Routledge Handbook of Social and Sustainable Finance* (pp. 530–546).
25) Golombik, J., Kumar, A. dan Parwada, J. T. (2011). Does Religion Affect Stock Markets and Institutional Investor Behavior? *SSRN Electronic Journal*, 1-66. https://ssrn.com/abstract=1746564.
26) Grossman, B. R., & Sharpe, W. F. (1986). Financial Implications of South African Divestment. Financial Analyst Journal, 42, 15-29. https://doi.org/10.2469/faj.v42.n4.15
27) GSIA. (2018). *2018 Global Sustainable Investment Review*.
28) Guay, T., Doh, J.P. dan Sinclair, G. (2004). Non-Governmental Organizations, Shareholder Activism, and Socially Responsible Investments: Ethical, Strategic, and Governance Implicatons. *Journal of Business Ethics.* 52(1):125-139
29) Hassan, M. K. dan Girard, E. (2010). Faith-Based Ethical Investing: The Case of Dow Jones Islamic Indexes. *Islamic Economic Studies*, *17*(2). https://doi.org/10.2139/ssrn.1808853
30) Heinkel, R., Kraus, A. dan Zechner, J. (2001). The Effect of Green Investment on Corporate Behavior. *The Journal of Financial and Quantitative Analysis*, *36*(4), 431–449. https://doi.org/10.2307/2676219
31) Hong, H. dan Kacperczyk, M. (2009). The price of sin: The effects of social norms on markets. *Journal of Financial Economics*, *93*(1), 15–36. https://doi.org/10.1016/j.jfineco.2008.09.001
32) Hood, M., Nofsinger, J. R. dan Varma, A. (2014). Conservation, Discrimination, and Salvation: Investors' Social Concerns in the Stock Market. *Journal of Financial Services Research*, *45*(1), 5–37. https://doi.org/10.1007/s10693-013-0162-6
33) Hsu, J., Yang, T.-H. dan Sung, P.-S. (2016). SEO firms' lottery-like characteristics, institutional ownership, and long-run performance. *Journal of Business Research SEO*, *69*, 2160–2166.
34) Humphrey, J. E. dan Lee, D. D. (2011). Australian socially responsible funds – performance, risk and screening intensity. *Journal of Business Ethics*, *102*(4), 519-535.
35) Kim, I. dan Venkatachalam, M. (2011). Are sin stocks paying the price for their accounting sins? *Journal of Accounting, Auditing & Finance*, *26*(2), 415–442. https://doi.org/10.1177/0148558X11401222
36) Koop, M. (2013). *Socially Responsible Investment Fund Performance : The Impact of Social Screens and Intensity* (Issue August 2013). Thesis. School of Economics and Management, Tilburg University, The Netherlands.
37) Kumar, A. dan Page, J. K. (2014). Deviations from norms and informed trading. *Journal of Financial and Quantitative Analysis*, *49*(4), 1005–1037. https://doi.org/10.1017/S0022109014000519
38) Leventis, S., Hasan, I. dan Dedoulis, E. (2013). The Cost of Sin: The effect of social norms on audit pricing. *International Review of Financial Analysis*, *29*, 152–165. https://doi.org/10.1016/j.irfa.2013.03.006
39) Liston, D. P. dan Soydemir, G. (2010). Faith-based and sin portfolios: An empirical inquiry into norm-neglect vs norm-conforming investor behavior. *Managerial Finance*, *36*(10), 876–885. https://doi.org/10.1108/03074351011070242
40) Louche, C. dan Lydenberg, S. (2006). Socially Responsible Investment: Differences between Europe and United States. In *Vlerick Leuven Gent Management School Working Paper Series 2006-22,*.
41) Lusyana, D., dan Sherif, M. (2017). Shariah-compliant investments and stock returns: evidence from the Indonesian stock market. *Journal of Islamic Accounting and Business Research*, *8*(2), 143-160. http://dx.doi.org/10.2139/ssrn.1746564.
42) Magnússon, M. B. dan Dyremyhr, T. E. (2011). *Ethical Investments* (Issue June). Thesis. Department of Finance, Copenhagen Business School.
43) Mazouz, K., Mohamed, A. dan Saadouni, B. (2016). Price Reaction of Ethically Screened Stocks: A Study of the Dow Jones Islamic Market World Index. *Journal of Business Ethics*, *154*(3), 683–699. https://doi.org/10.1007/s10551-016-3389-y
44) Michelson, G., Wailes, N., van der Laan, S. dan Frost, G. (2004). Ethical Investment Processes and Outcomes. *Journal of Business Ethics*, *52*(52), 1–10. https://doi.org/10.1023/B:BUSI.0000033103.12560.be
45) Morrow Sodali (2020). Institutional Investor Survey 2020. *Morrow Sodali's Institutional Investor Survey*.
46) Mubarok, A. (2022). Investasi Etis (*Ethical Investment*) (Konsep, Dasar Pertimbangan dan Pendekatan). Jesya (Jurnal Ekonomi Dan Ekonomi Syariah), 5(1), 766-783. https://doi.org/https://doi.org/10.36778/jesya.v5i1.646
47) Ng, S., dan Zhu, X. (2016). Do Changes in Index Composition Affect the Stock Prices and Trading Volume ? The Case of a Shariah-Compliant Index in Malaysia. *Capital Markets Review*, *24*(2), 14–39.
48) Nilsson, J. (2009). Segmenting socially responsible mutual fund investors. The International *Journal of Bank Marketing,* 27(1), 5–31. https://doi. org/10.1108/02652320910928218
49) Nofsinger, J. . R., Chair, W. H. S., Sulaeman, J. dan Varma, A. (2016). *Institutional Investors and Socially Responsible*

*Investments: It Just Makes (Economic) Sense*. 1-62.Working Peper. University of Alaska Fairbanks.

50) Ortas, E. dan Moneva, J. M. (2010). Conditional volatility in sustainable and traditional stock exchange indexes: analysis of the Spanish market. *GCG: Revista de Globalización, Competitividad & Gobernabilidad*, *4*(2), 104–129.
51) Pena, J. dan Cortez, M. C. (2017). *Social screening and mutual fund performance: international evidence*. 1–67. https://efmaefm.org/0EFMAMEETINGS/EFMAANNUAL MEETINGS/2017-Athens/papers/EFMA2017_0206_fullpaper.pdf
52) Rafik, A. dan Lantara, I. W. . N. (2016). An empirical study on index changes on the Indonesia Stock Exchange. *Afro-Asian J. Finance and Accounting*, *6*(2), 87–116. https://doi.org/10.1504/AAJFA.2016.077322
53) Rahmasuciana, D. Y., Alwan, A., Utama, A. S. dan Rofi'i, M. (2016). Dampak Screening Terhadap Harga dan Volume Perdagangan Saham Syariah di Indonesia. *Gadjah Mada International Conference on Islamic Business Research*, *May*.
54) Reich, M. C., Wolff, R., Zaring, O., Zetterberg, L., dan Åhman, M. (2001). *Ethical Investments-Towards a Sound Theory and Screening Methodology* (B 1425, Issue October). Swedish Environmental Research Institute.
55) Renneboog, L., ter Horst, J., dan Zhang, C. (2007a). Socially Responsible Investments: Methodology, Risk Exposure and Performance. In *ECGI W0rking Peper Series in Finance* (175/2007; 2007-013, Issue 175). https://doi.org/10.2139/ssrn.985267
56) Renneboog, L., ter Horst, J. dan Zhang, C. (2007b). The Price of Ethics: Evidence from Socially Responsible Mutual Funds. In *TILEC Discussion Paper* (Vol. 012).
57) Revelli, C., dan Viviani, J.-L. (2013). The Link Between SRI and Financial Performance: Effects and Moderators. *Management International*, *17*(2), 105–122. https://doi.org/10.7202/1015403ar
58) Rockness, J. dan Williams, P. F. (1988). A descriptive study of social responsibility mutual funds. *Accounting, Organizations and Society*, *13*(4), 397–411. https://doi.org/10.1016/0361-3682(88)90013-X
59) Rosen, B. N., Sandler, D. M. dan Shani, D. (1991). Social issues and socially responsible investment behavior: A preliminary empirical investigation. *Journal of Consumer Affairs,* 25(2), 221–234. https://doi.org/10.1111/j.1745-6606.1991.tb00003.x
60) Salaber, J. (2013). Religion and returns in Europe. *European Journal of Political Economy*, *32*, 149–160. https://doi.org/10.1016/j.ejpoleco.2013.07.002
61) Sandberg, J., Juravle, C., Hedesström, T. M. dan Hamilton, I. . (2009). The heterogeneity of socially responsible investment. *Journal of Business Ethics*, *87*(4), 519–533. https://doi.org/10.1007/s10551-008-9956-0
62) Schueth, S. (2003). Socially responsible investing in the United States. *Journal of Business Ethics*, *43*(3), 189–194. https://doi.org/10.1023/A:102298182
63) Sparkes, R. (2001). Ethical investment: whose ethics, which investment? *Business Ethics: A European Review*, *10*(3), 194–205. https://doi.org/10.1111/1467-8608.00233
64) Trinks, P. J. dan Scholtens, B. (2017). The Opportunity Cost of Negative Screening in Socially Responsible Investing. *Journal of Business Ethics*, *140*(2), 193–208. https://doi.org/10.1007/s10551-015-2684-3
65) Utami, Y. dan Mubarok, A. (2016). Kandungan Informasi Ekonomi Saham dalam Indek Saham Syariah Indonesia (ISSI). *Prosiding SNaPP2016 Sosial, Ekonomi, Dan Humaniora*, *1*, 293–300.
66) Van Stekelenburg, A., Georgakopoulos, G., Sotiropoulou, V., Vasileiou, K. Z. dan Vlachos, I. (2015). The Relation between Sustainability Performance and Stock Market Returns: An Empirical Analysis of the Dow Jones Sustainability Index Europe. *International Journal of Economics and Finance*, *7*(7), 74–88. https://doi.org/10.5539/ijef.v7n7p74
67) Vanwalleghem, D. (2013). *The real effects of socially responsible investing: Disagreement on the doing well while doing good hypothesis and the cost of capital*. 1-36. https://faculty.wharton.upenn.edu/wp-content/uploads/2014/10/Vanwalleghem_The-real-effects-of-socially-responsible-investing_1.pdf
68) Viviers, S. dan Eccles, N. S. (2012). 35 years of socially responsible investing (SRI) research—General trends over time. *South African Journal of Business Management*, 43(4), 1–16.
69) von Wallis, M. dan Klein, C. (2015). Ethical requirement and financial interest: a literature review on socially responsible investing. *Business Research*, *8*(1), 61–98. https://doi.org/10.1007/s40685-014-0015-7
70) Widyawati, L. (2019). A systematic literature review of socially responsible investment and environmental social governance metrics. *Bus Strat Env*., 1–19.