



Financial Performance and Investment Outcomes of Socially Responsible Firms

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Abstract

This study explores whether firms recognized for strong ethical practices also demonstrate stronger financial results and superior risk-adjusted returns. Companies named to Ethisphere’s 2024 World’s Most Ethical Companies list are used as an indicator of ethical commitment. From this group, portfolios of publicly traded U.S. and non-U.S. firms are formed and analyzed from January 2015 to December 2024. Firm performance is evaluated using key accounting measures, including profit margin, return on assets, return on equity, asset turnover, and leverage ratios. Investment performance is examined using stock returns, beta, standard deviation, and commonly used risk-adjusted performance metrics. The U.S. ethical portfolio is benchmarked against the S&P 500 Index, whereas the non-U.S. ethical portfolio is compared to the MSCI World Index. The findings show mixed but significant differences. When adjusting strictly for market risk, the U.S. ethical portfolio trails the S&P 500, yet it produces stronger returns relative to total volatility, indicating more consistent performance with lower overall variability. In contrast, the non-US ethical portfolio exceeds the MSCI World Index on both market-risk and total-risk-adjusted bases. These firms also display stronger profitability, more conservative leverage levels, and reduced volatility in earnings. Taken together, the results question the assumption that ethical corporate conduct comes at the expense of financial success. Instead, the evidence indicates that incorporating ethically recognized firms—particularly outside the United States—may contribute to improved diversification, enhanced risk control, and stronger long-term portfolio performance.

Keywords: Ethical investments, Risk and return, Social responsibility, Sustainability.

1. Introduction

Corporate social responsibility (CSR) definitions differ significantly. According to Milton Friedman, corporate managers’ social responsibility is to maximize corporate profits (Friedman, 1970). Bowman and Haire (1976) assert that considering “...the impact of all the corporations’ activities on the total welfare of society” is corporate managers’ social responsibility.” Socially responsible initiatives as a corporation’s proactive strategy will lead to stakeholder wealth maximization.” Are these opposing viewpoints true, or can both be true simultaneously? As defined by Bowman and Haire, socially responsible corporations are perceived favorably by the public. However, does a corporation’s virtue reward its owners with superior financial performance?

Since 2006, Ethisphere has been recognized as the World’s Most Ethical Companies each year since 2006. They assert that investors, employees, and other stakeholders value companies with strong ethical practices. These companies outperform the competition, are better places to work, and positively impact their communities. According to the website of Ethisphere, “Good ethics are good business.” In 2024, 136 organizations received this prestigious designation.

Honorees are evaluated and selected based on their responses to a survey of more than 200 multiple-choice and text questions, which results in an EQ. The survey result or score is designed to quantify, consistent, and standardize a company’s ethics profile. All participants receive their overall EQ score and their scores in each category as compared to the honorees. The five areas assessed and their respective weights in the composite EQ score are as follows: governance (15%), ethics and compliance program (35%), culture of ethics (20%), environmental and societal impact (20%), and leadership and reputation (10%).

The honorees are from 20 countries and 44 industries. Most companies on the list are based in the U.S. (101), while 35 are from countries other than the U.S. Six companies based in Ireland are honored, the second largest number from a single country. Canada and France have four recognized companies, and three honored companies are based in India. Japan, Switzerland, and the United Kingdom each have 2 companies on the list. Twelve recipients are lone honorees from their respective countries. Among the group are 16 companies receiving the

recognition for the first time, and 56 companies have been honored 10 times or more by Ethisphere's recognition program.

Investors seek corporate equity portfolios that maximize risk-adjusted returns. If companies that emphasize ethical and socially responsible behavior outperform the market, investors should include this variable when selecting investments. To test this assertion, several financial ratios and a risk-adjusted returns measure for a portfolio comprised of U.S. companies recognized by Ethisphere are compared to S&P 500 index results. Financial ratios and a risk-adjusted return measure for a portfolio comprising non-U.S. companies recognized by Ethisphere are compared to the MSCI World Index.

2. Literature Review

The relationship between CSR and financial performance has been studied for decades. A standard CSR metric has not been generally accepted, which represents a significant research obstacle.

Moskowitz (1972) analyzed the relationship between a corporation's social responsibility and its stock returns and found no significant difference in investment performance. Vance (1975) reported a negative relationship between corporate social responsibility and investment returns. Subsequent studies, including those by Alexander and Buchholz (1978) and Abbott and Monsen (1979), found no significant relationship between CSR and profitability.

Aupperle, Carroll, and Hatfield (1985) examined the relationship between CSR and profitability, highlighting the challenges of the methodology and the lack of consistent findings in existing research. Short- and long-term profitability is analyzed using the one- and five-year returns on assets. The study assessed CSR through a survey instrument administered to corporate executives based on Carroll's CSR Model and found no significant relationship between CSR and profitability.

Griffin and Mahon (1997) asserted the need for industry-specific studies to better understand the association between CSR and financial performance. Simpson and Kohers (2002) examined 385 national banks in 1993 and 1994 and found a positive link between a bank's Community Reinvestment Act (CRA) rating and its return on assets and loan losses to total assets. Banks are assigned a CRA rating based on their community engagement and lending practices, and these ratings influence their ability to expand and merge. Banks with the highest CRA had a mean ROA of 1.75% compared to 0.984% for banks with the lowest CRA rating.

A meta-analysis of 52 studies by Orlitzky, Schmidt, and Rynes (2003) produced a sample of more than 30,000 observations. A positive correlation between corporate social performance and financial performance accounting measures is reported. CSR reputation measures are better predictors of financial performance than other social responsibility metrics.

Palmer's (2012) senior thesis explores the relationship between corporate social responsibility (CSR) and the accounting metrics of sales and gross profit. Data for S&P 500 firms for the 2001-2005 period is analyzed, and CSR is measured using the MSCI ESG Index. Although CSR is significantly related to ROA and higher gross margins, it is also associated with decreased overall sales.

The effect of environmental, social, and governance (ESG) initiatives on the economic performance of 372 S&P 500 companies from the technology, financial, manufacturing, logistics, and oil industries from 2010 to 2015 is studied. Cek and Eyupoglu (2020) used longitudinal data and found that CSR has a significant and positive impact on economic performance, with the strongest impact occurring the year after the initiative.

The risk-adjusted returns of socially responsible companies are compared to the risk-adjusted returns of their sector. Gullett, Haddad, and Hatch (2024) examine 35 publicly traded U.S. companies from Ethisphere's 2022 list of the world's most ethical companies. To measure risk-adjusted returns, the Sharpe Ratios, Jensen Alphas, and Treynor Ratios are calculated. More than half of the companies underperformed their sectors, but a portfolio comprising the 35 companies produced excess positive returns primarily due to the technology sector companies.

Chen, Chang, and Yang examined 96 Taiwanese companies recognized by *Commonwealth Magazine* and *Vision Magazine* as socially responsible from 2016 to 2018. A matched sample method is used to compare non-socially responsible firms with socially responsible firms from different industries. Financial performance is assessed by comparing the ratios of return to assets and return on equity, and stock performance is evaluated using cumulative abnormal returns. The findings reveal that CSR does not significantly enhance financial performance but positively influences stock performance. Traditional capital-intensive industries experience a negative impact on ROA due to the additional costs associated with corporate social responsibility initiatives. In contrast, the electronics industry benefits from CSR, with positive effects on both financial and stock performance, likely due to its technological advancements and pricing power. Other service industries show no significant financial impact from CSR, but cumulative abnormal returns indicate that stock performance benefits.

Lemana, Matemane, and Mokabane (2025) explore the relationship between corporate social responsibility (CSR) and the financial performance of South African companies listed on the Johannesburg Stock Exchange using CSR scores and environmental, social, and governance (ESG) ratings. Data from 104 companies from 2017 to 2022 are used to calculate the return on assets, earnings per share, market value added, and Tobin's Q ratio. A generalized least squares estimation method is employed, and a significant positive correlation is found between CSR performance and various financial metrics.

3. Research Methodology

Ethisphere's 2024 list of the world's most ethical companies consists of 136 organizations. The study focuses on publicly traded companies that exhibit socially responsible behavior; therefore, private companies and not-for-profit honorees are excluded. One U.S. company and two non-U.S. companies are excluded due to missing data. The final sample includes 72 U.S. companies and 19 non-U.S. (foreign) companies. The technology (14), financial (12), and industrial (12) sectors account for 38 of the 72 U.S. companies in the sample. The Consumer Discretionary and Consumer Staples sectors each had nine companies in the sample, and the remainder were from the Utility sector (5), Healthcare sector (4), Real Estate sector (3), Materials sector (3), and Communications sector (1). The Technology sector (5) and the Industrials sector (5) comprise 10 of the 19 non-U.S. companies in the

sample. Three companies from the consumer discretionary sector are included. The foreign portfolio sector distribution also includes health care (2), consumer staples (2), financial (1), and utility sector (1).

Bloomberg provides monthly stock prices from January 2015 through December 2024 for the remaining sample of 91 companies. Monthly observations for the S&P 500 Index and the MSCI World Index are also collected. The risk-adjusted returns using both the standard deviation of returns and beta are calculated for each company and for the S&P 500 Index and the MSCI World Index. The following accounting ratios are analyzed for each company to broaden the assessment of financial performance: net profit margin, total asset turnover, return on assets, return on equity, and debt to equity. The accounting ratios are also examined for each index, except for Total Asset Turnover.

The 72 U.S. companies in our sample comprise a portfolio of ethical U.S. corporations. Measures of investment and accounting performance for the U.S. ethical portfolio are compared to results for the S&P 500. The portfolio of ethical foreign corporations consists of the 19 non-U.S. companies in our sample. The financial performance metrics for the foreign ethical portfolio are compared to the measures of the MSCI World Index.

4. Results

Tables 1 and 2 present the minimum, maximum, and average values, respectively, for each financial performance and risk variable for the ethical domestic and ethical foreign portfolios. The substantially greater dispersion observed among ethical U.S. companies relative to ethical foreign companies is a consistent pattern across the results. With the exception of return volatility measured by standard deviation, the ethical domestic portfolio exhibits wider ranges between minimum and maximum values for all variables, indicating considerable heterogeneity in financial performance and capital structure among U.S. firms recognized for ethical practices.

Table 1. Maximums, Minimums, and Averages for Ethical Domestic Company Variables.

	NPM	Asset TO	Beta	D/E %	ROA	ROE	Return %	Returns St. Dev.
Maximum	48.43	2.88	2.60	4508.52	18.71	586.20	2.64	2.18
Minimum	-289.48	0.04	0.26	14.16	-5.30	-13.27	-0.54	0.07
Average	4.44	0.80	1.09	240.80	5.47	30.95	0.85	0.39

n=72

Table 2. Maximums, Minimums, and Averages for Ethical Foreign Company Variables.

	NPM	Asset TO	Beta	D/E %	ROA	ROE	Return %	Returns St. Dev.
Maximum	24.37	1.55	1.82	222.60	19.29	39.45	1.88	2.66
Minimum	2.17	0.04	0.55	4.41	0.73	4.38	-0.11	0.03
Average	10.11	0.76	1.05	66.45	6.70	16.39	0.90	0.54

n=19

Several notable outliers contribute to this dispersion. For example, the average net profit margin for ethical foreign firms is tightly clustered between approximately 22% and 23%, while the domestic portfolio exhibits a range of approximately 335 This variation is largely attributable to Royal Caribbean Cruises’ negative average profit margin of 289.5 percent during the sample period. A similar dispersion is observed in return on equity (ROE), where ethical domestic firms display a range of approximately 600 percent compared to 35% for ethical foreign firms. Kimberly-Clark’s average ROE of 586.2 percent illustrates how leverage and firm-specific capital structures can substantially magnify equity returns within the domestic ethical portfolio.

The most pronounced contrast occurs in leverage. Ethical domestic firms exhibit a debt-to-equity ratio of approximately 4,500 percent, driven primarily by Colgate-Palmolive’s average ratio of 4,508.5 percent. This finding highlights substantial variation in financing strategies among ethical firms in the United States, ranging from conservatively financed companies to those employing aggressive leverage. In contrast, ethical foreign firms display a much narrower leverage range of 218 percent, denoting more uniform and conservative capital structures.

Comparisons of profitability and risk across the two portfolios reveal additional distinctions. Ethical foreign firms demonstrate higher average profit margins and lower betas than their U.S. counterparts, indicating greater profitability with lower systematic market risk exposure. The average return on assets (ROA) for ethical foreign firms exceeds that of ethical domestic firms by 1.23%. However, the average ROE for ethical domestic firms is approximately twice that of ethical foreign firms, which is consistent with the higher leverage observed among U.S. firms. Ethical foreign firms also generate higher average common stock returns with lower volatility, reflecting a combination of profitability and stability.

Tables 3 and 4 report firm-level average financial performance measures for the ethical domestic (n = 72) and ethical foreign (n = 19) portfolios, respectively, from January 2015 to December 2024. The minimum and maximum values summarized in Tables 1 and 2 are drawn directly from these firm-level results, illustrating the degree to which individual companies influence overall portfolio characteristics.

Table 3. Performance Metrics for Ethical Domestic Companies.

Ticker	NPM	Asset TO	Beta	D/E %	ROA	ROE	Last Price	Return %	St. Dev.
AOS US Equity	11.93	1.04	1.34	16.66	12.30	22.13	56.99	1.01	0.25
ADM US Equity	2.82	1.60	0.88	45.68	4.72	10.89	54.29	0.32	0.21
ACM US Equity	0.69	1.22	1.49	107.49	0.72	3.28	52.99	1.57	0.23
AES US Equity	-0.15	0.32	1.06	333.94	-0.02	-1.06	16.88	0.47	0.09
AIZ US Equity	5.61	0.27	0.55	36.48	1.46	10.39	122.26	1.22	0.47
ADSK US Equity	1.97	0.56	1.64	688.78	2.54	-12.05	171.81	1.93	1.02
AGR US Equity	9.22	0.19	0.40	47.29	1.85	3.96	43.70	0.08	0.16
AVA US Equity	9.09	0.25	0.39	116.90	2.50	7.88	41.46	0.17	0.14
BAH US Equity	5.61	1.67	0.84	341.14	9.11	61.79	72.34	1.49	0.31
BF/B US Equity	24.39	0.63	0.78	117.18	15.33	43.05	55.28	0.24	0.20
CBRE US Equity	4.27	1.48	1.58	81.20	6.63	19.07	61.08	1.60	0.26
CL US Equity	13.29	1.18	0.59	4508.52	15.62	366.77	74.78	0.36	0.26
DAN US Equity	2.14	1.26	2.15	148.84	3.26	16.10	17.55	0.55	0.12
ECL US Equity	7.49	0.69	0.99	105.07	5.36	14.63	168.12	0.87	0.64
LLY US Equity	18.07	0.57	0.34	202.28	10.02	60.22	242.72	2.28	1.12
FDX US Equity	3.82	1.17	1.36	125.49	4.52	14.01	211.31	0.82	0.96
FITB US Equity	27.81	0.05	1.27	99.61	1.24	12.10	29.22	1.21	0.14
FLEX US Equity	2.05	1.73	1.30	107.37	3.31	15.60	12.28	1.68	0.07
GM US Equity	4.89	0.65	1.44	197.07	3.24	15.00	38.54	0.88	0.20
G US Equity	9.77	0.88	0.94	90.83	8.57	20.68	35.12	0.90	0.13
HPE US Equity	5.95	0.52	1.51	68.68	2.79	7.40	14.36	1.14	0.08
HPQ US Equity	6.48	1.47	1.30	35.73	9.40	16.75	23.18	0.94	0.12
IBM US Equity	10.15	0.56	0.96	261.06	6.24	45.33	142.34	0.57	0.44
INGR US Equity	6.93	1.11	0.75	75.44	7.70	17.16	102.11	0.63	0.38
IP US Equity	5.68	0.71	1.27	171.08	3.96	18.64	43.99	0.39	0.19
SJM US Equity	8.51	0.49	0.41	72.52	4.08	8.55	123.29	0.23	0.44
JLL US Equity	3.21	1.38	1.54	52.61	4.75	11.70	161.40	0.97	0.81
JNPR US Equity	7.99	0.54	0.90	42.48	3.68	7.38	28.05	0.69	0.12
KMB US Equity	10.18	1.18	0.55	4270.32	11.63	586.20	127.29	0.29	0.42
LECO US Equity	9.54	1.26	1.18	84.12	11.98	31.62	114.42	1.11	0.50
LNC US Equity	3.62	0.05	1.86	58.32	0.39	8.54	51.24	0.37	0.25
MAN US Equity	1.69	2.37	1.43	43.60	4.35	13.93	87.16	0.26	0.42
NWN US Equity	2.14	0.24	0.45	123.00	1.60	6.30	53.37	-0.03	0.21
OSK US Equity	4.86	1.32	1.55	42.15	6.51	14.65	80.53	1.19	0.47
PAYX US Equity	28.15	0.46	0.96	18.93	13.05	42.80	88.51	1.12	0.31
PII US Equity	4.74	1.73	1.36	146.37	9.58	33.58	101.26	-0.13	0.56
PINC US Equity	9.72	0.53	0.42	14.16	4.45	11.04	32.64	-0.11	0.15
PFG US Equity	10.80	0.05	1.37	31.15	0.67	14.68	61.25	0.77	0.27
PRU US Equity	5.77	0.07	1.42	67.09	0.44	7.57	94.95	0.72	0.37
RDUS US Equity	-1.44	1.78	1.47	45.10	0.25	-0.20	25.91	0.76	0.21
RSG US Equity	10.38	0.47	0.62	108.78	4.78	13.25	99.15	1.48	0.31
ROK US Equity	13.18	0.90	1.35	133.65	11.75	50.44	207.87	1.15	0.94
RCL US Equity	-289.48	0.31	1.91	258.56	-0.02	-4.23	96.83	2.13	0.63
CRM US Equity	6.21	0.46	1.27	25.71	2.21	3.59	165.28	1.90	0.99
NOW US Equity	-0.76	0.66	1.07	83.58	-1.51	-10.92	357.71	2.64	2.18
TDC US Equity	2.07	0.92	1.01	212.60	2.26	15.65	35.52	0.27	0.17
ALL US Equity	5.49	0.40	0.68	32.53	2.01	10.31	106.72	1.03	0.37
GT US Equity	0.42	0.88	1.75	163.01	1.92	10.32	19.65	0.10	0.12
HIG US Equity	6.47	0.21	0.84	30.18	1.71	8.60	60.32	1.11	0.23
USB US Equity	27.12	0.05	1.04	119.93	1.24	13.43	47.25	0.41	0.19
X US Equity	0.96	1.11	2.60	85.56	2.61	2.99	23.95	2.14	0.23
UNM US Equity	8.69	0.18	1.18	33.69	1.48	9.90	37.57	1.18	0.16
VZ US Equity	14.13	0.45	0.50	324.63	6.23	48.20	49.50	0.02	0.17
V US Equity	48.43	0.32	0.97	49.21	15.54	35.60	169.72	1.52	0.67
VOYA US Equity	0.97	0.04	1.28	30.90	0.17	4.84	53.95	0.83	0.22
WY US Equity	10.95	0.45	1.49	70.53	5.99	11.80	31.55	0.21	0.15
WM US Equity	10.52	0.64	0.70	188.23	6.80	27.15	117.68	1.28	0.38
WDAY US Equity	-9.52	0.53	1.56	58.11	-5.30	-13.27	167.06	1.53	1.10
XEL US Equity	11.26	0.26	0.26	148.99	2.80	10.44	55.68	0.62	0.21
BBY US Equity	3.12	2.88	1.22	86.55	9.18	39.04	71.80	1.22	0.39
HAS US Equity	2.81	0.80	0.79	149.02	4.15	10.95	82.53	0.24	0.34
HSIC US Equity	4.44	1.49	0.91	36.91	6.75	16.46	67.41	0.43	0.25
INTC US Equity	14.45	0.49	0.96	41.36	9.71	17.05	42.00	-0.01	0.22
DE US Equity	9.63	0.54	0.98	371.16	5.46	30.33	238.26	1.62	1.03
K US Equity	7.52	0.80	0.46	269.40	5.90	35.93	62.89	0.39	0.21

KSS US Equity	2.25	1.30	1.49	127.74	3.72	9.89	43.58	-0.08	0.27
LRCX US Equity	22.53	0.81	1.47	68.10	18.71	43.63	37.01	2.34	0.22
MU US Equity	13.65	0.51	1.35	33.49	10.02	16.02	54.85	1.51	0.44
PFE US Equity	22.26	0.33	0.69	65.49	7.60	18.58	35.78	0.02	0.16
HSY US Equity	14.43	1.10	0.26	246.81	14.69	68.63	149.86	0.55	0.54
VFC US Equity	4.35	1.00	1.27	168.71	5.89	12.65	56.67	-0.54	0.25
PEP US Equity	11.04	0.87	0.60	272.63	9.30	53.39	136.17	0.50	0.42
n-72									

Table 4. Performance Metrics for Ethical Foreign Companies.

Ticker	NPM	Asset TO	Beta	D/E %	ROA	ROE	Last Price	Return %	St. Dev.
ACN US Equity	10.84	1.55	1.14	8.58	16.51	39.45	216.37	1.42	0.79
APTV US Equity	8.34	1.05	1.82	99.13	8.95	32.47	89.54	0.64	0.47
BMO US Equity	24.37	0.04	1.10	222.60	0.73	13.15	78.88	0.54	0.30
CAPMF US Equity	6.76	0.83	1.20	73.89	5.61	14.39	144.02	0.96	0.90
ETN US Equity	11.16	0.63	1.22	54.80	6.90	14.11	121.50	1.55	0.53
GRBMF US Equity	3.63	1.12	0.55	121.36	4.23	14.31	2.85	0.53	0.04
IBDSF US Equity	9.30	0.31	0.62	89.71	2.78	8.81	9.69	0.73	0.04
INFY US Equity	19.29	1.00	0.73	4.41	19.29	26.79	13.22	1.10	0.04
JCI US Equity	6.62	0.73	1.02	55.60	4.36	10.80	46.12	0.74	0.20
LRLCF US Equity	13.98	0.74	0.75	15.53	10.69	16.95	308.45	0.73	1.86
LZAGF US Equity	17.31	0.42	1.09	54.51	6.59	13.91	416.52	1.75	2.66
MGA US Equity	3.97	1.48	1.46	41.96	6.66	15.52	54.63	0.27	0.26
MDT US Equity	13.09	0.32	0.77	57.23	4.28	8.01	91.29	0.26	0.35
NOKBF US Equity	2.47	0.57	0.82	28.45	1.97	4.38	5.08	-0.11	0.03
SBGSF US Equity	8.94	0.60	1.16	42.36	5.30	11.63	123.67	1.26	0.52
SDXOF US Equity	2.17	1.23	0.81	134.71	2.93	12.94	75.20	0.40	0.28
SNEJF US Equity	6.66	0.41	1.21	41.04	2.46	12.92	12.72	1.50	0.06
TEL US Equity	13.86	0.69	1.21	42.75	9.45	19.44	98.48	0.88	0.40
TT US Equity	9.38	0.80	1.18	73.94	7.61	21.44	123.50	1.88	0.53
n-19									

Table 5 compares the ethical U.S. portfolio to the S&P 500 Index. The ethical domestic portfolio exhibits lower average profit margins than the market benchmark. Firms recognized for ethical practices may incur additional operating or compliance-related costs. Despite lower margins, ethical U.S. firms outperform the S&P 500 in terms of ROA and ROE, indicating a more effective use of assets and shareholder equity. Ethical practices do not preclude strong accounting performance and may be associated with operational discipline or long-term efficiency gains.

From a risk standpoint, the ethical U.S. portfolio displays slightly higher market risk and substantially higher financial leverage than the S&P 500. The debt-to-equity ratio for ethical domestic firms exceeds that of the index by more than 120 percent. However, despite this higher leverage, the ethical U.S. portfolio exhibits markedly lower return volatility. The substantially lower standard deviation of returns indicates a more stable stock price behavior over the sample period. While the average stock returns for the ethical U.S. portfolio are lower than those of the S&P 500, the reduced volatility indicates that the downside risk is mitigated.

Table 5. Performance Metrics for Ethical Domestic Portfolio and SPX Index.

	NPM	Asset TO	Beta	D/E %	ROA	ROE	Return %	Returns St. Dev.
Portfolio	4.44	0.80	1.09	240.80	5.47	30.95	0.85	0.39
SPX Index	9.66		0.93	116.03	3.18	15.26	0.92	4.56
Difference	-5.23		0.16	124.77	2.28	15.70	-0.07	-4.17

Table 6 presents a comparison between the ethical non-US portfolio and the MSCI World Index. In contrast to the U.S. results, Ethical foreign firms outperform the global benchmark across most financial performance measures. Higher profit margins, ROA, and ROE indicate a stronger accounting performance relative to the MSCI World Index. These outcomes are achieved with significantly lower leverage. The debt-to-equity ratio of the ethical foreign portfolio is more than 70% lower than that of the MSCI World Index, reflecting more conservative financing practices.

Table 6. Performance Metrics for Ethical Foreign Portfolio and MXWO Index.

	NPM	Asset TO	Beta	D/E %	ROA	ROE	Return %	Returns St. Dev.
Portfolio	10.11	0.76	1.05	66.45	6.70	16.39	0.90	0.54
MXWO Index	8.37		0.90	138.74	1.91	12.10	0.70	4.51
Difference	1.74		0.15	-72.29	4.79	4.29	0.20	-3.97

Investment performance measures further distinguish between ethical foreign firms. The ethical non-US portfolio generates higher average stock returns with substantially lower volatility than the MSCI World Index. This combination of higher returns and reduced risk is consistent with the view that EPCs may be particularly valuable in international markets, where governance quality and stakeholder confidence may play a more prominent role in firm valuation.

Risk-adjusted returns are evaluated in Tables 7 and 8 using both market risk (beta) and total risk (standard deviation). Table 7 shows that when returns are adjusted for market risk, the ethical U.S. portfolio underperforms

the S&P 500, indicating that ethical screening does not enhance compensation for systematic risk in the U.S. market. However, the ethical U.S. portfolio delivers higher returns per unit of volatility when total risk is considered. This finding suggests that ethical practices may contribute to greater return stability, even if exposure-adjusted returns relative to the broader market are not increased.

Table 7. Comparison of Ethical Domestic Portfolio Return to Risk.

	Return %/Beta	Return %/St. Dev.
Portfolio	0.78%	2.20%
SPX Index	0.99%	0.20%

Table 8. Comparison of Ethical Foreign Portfolio Return to Risk.

	Return %/Beta	Return %/St. Dev.
Portfolio	0.86%	1.66%
MXWO Index	0.78%	0.15%

Table 8 presents the risk-adjusted results for the ethical non-U.S. portfolio relative to the MSCI World Index. Under both market-risk-adjusted and total-risk-adjusted measures, ethical foreign firms outperform the global benchmark. These results indicate that ethical behavior among non-US firms is associated with higher returns without a corresponding increase in risk. Collectively, the findings support the conclusion that ethical investing does not require investors to forgo competitive performance and that ethical practices may enhance both portfolio resilience and risk-adjusted returns, particularly in non-U.S. markets.

5. Conclusion

The results challenge Milton Friedman’s assertion that ethical investing requires a sacrifice in profitability and investment returns, particularly for the non-U.S. ethical portfolio. Instead, the evidence demonstrates that ethical firms can generate favorable accounting profits and investment returns, potentially due to stronger governance practices and reduced regulatory risk. Domestic and foreign ethical portfolios generate returns similar to or better than those of conventional market indices. The lower standard deviations for both ethical portfolios are evidence of stable performance with less downside risk. A corporation that adheres to ethical standards also demonstrates prudent risk management and sound operational efficiency. The results also reinforce the importance of diversifying investments. Allocating a portion of one’s portfolio to ethical companies outside the United States offers higher risk-adjusted returns and can improve overall portfolio performance and resilience.

The study’s results contribute to the body of evidence that ethical investment aligns financial performance with social responsibility. Investors who demand ethical financial options are not forced to trade off competitive returns to follow their ethical principles. Socially responsible practices contribute to corporate resilience, particularly during periods of market stress, by fostering governance strength and stakeholder trust.

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