

NPOs AND SOCIALLY RESPONSIBLE INVESTMENTS. THE CASE OF ITALIAN FOUNDATIONS.

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Abstract

This paper aims to investigate if and to what extent it is possible for NPOs, and for foundations in particular, to break down the firewall between mission attainment and investment policies. To do that a twofold interpretation of the foundations' fiduciary duty is proposed: the mission or institutional duty and the economic-financial duty. The paper attempts to argue that in order to be consistent with their mission (but also to foster their action) the NPOs' investment policies have to be coherent with their purposes. A survey of Italian Foundations shows that these practices are still underused and relatively unknown, even though some interesting insights emerge from new Italian experiences.

Keywords: non-profit, foundations, socially responsible investing, mission-related investing

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Introduction

The main reason why a for profit business exists is usually of an economic (or financial) nature: the 'legal mission' of a company is to create profit (or value) and to share it among its members. For non profit organizations (NPOs) it is quite different. They exist for different motives and for different purposes. NPOs must, therefore, state and disclose their specific *raison d'être* by means of a mission statement. The mission should be the beacon of all the NPOs' decisions and activities. In actual fact, it frequently appears to be a 'firewall' between the fund management and the grant-making sides. Such a separation seems to be consistent with the way most foundations operate (McKeown, 1997; Emerson, 2003):

'Historically, foundations have maintained this impermeable wall between investing and programming – the idea being that what's business is business, and what's social is social, and never the twain shall meet' (Emerson, 2003, p.40).

This paper aims to investigate if and how NPOs, and foundations in particular, can 'break down this wall' and make investment policies that are consistent with their mission.

In order to explore this issue, we first propose to interpret this 'divergent strabismus' by using the most common ethical theories (Velasquez, 1988; De George, 1990; Beauchamp and Bowie, 1993; Beauchamp et al. (eds.), 2008). Some considerations on the role of the NPOs' mission statement will then be expressed in order to understand more clearly the 'fiduciary duties' that these organizations have to fulfil. In fact, when institutions have an endowment devoted to certain specific (often charitable) purposes, they become responsible for the use of these assets and, therefore, 'fiduciaries' (McKeown, 1997). The consequent 'fiduciary duty' has a twofold objective: to preserve the patrimony and to generate those incomes which are deemed to be necessary to

serve the NPOs' purposes (economical duty) in respect of the overall institutional mission (institutional or mission duty).

The possibility of introducing ethical or social principles in investment policies has been on the agenda of different types of fiduciaries. Indeed, particular attention has recently been given to pension funds for the important and influential role they can play on financial markets (Sethi, 2005; Smith, 2004; Kinder, 2004; Klaassen and Gay, 2003), but also NPOs' fiduciaries have the same potential (Guay et al. 2004; Sparkes and Cowton, 2004 and on NPOs' fiduciary duties: McKeon, 1997; Solomon and Coe, 1997a and b). Despite these possibilities, the phenomenon still remains limited even in markets like the USA, which uphold a consolidated SRI tradition (Tash and Dunn, 2001; Emerson, 2003).

Some recent research in Europe (in particular, Valor and de la Cuesta, 2007 for Spain and Schaefer, 2004 for Germany) have shown that the reasons why NPOs do not invest in SRI are to be found not in the fear of incurring loss of return (Schaefer, 2004) but rather due to a lack of information about these instruments and in the lack of trust on how ethical funds are managed (Valor and de la Cuesta, 2007). These findings give us a first insight into the European NGOs propensity towards socially responsible investing (SRI), however both NPOs and ethical investment markets are so varied across Europe that more investigations are needed. For this purpose a study on the Italian market has been carried out.

After a brief 'ethical' interpretation of the general rule for separating mission and investment decisions, the paper tackles the role of the mission statement for NPOs with a consequent definition of the contents of 'fiduciary duties'. A specific paragraph is then devoted to the presentation of socially responsible investments (SRI) and the reasons why these could be particularly appealing to NPOs. The issue of the economic performance of investments following principles other than the classic risk-return criteria will then be analysed. In fact, this question seems to be of vital importance if we

are to verify compliance with the 'economical side' of the fiduciary duty to which foundations are bound. To complete this theoretical outline, an analysis of the Italian situation will be presented. Therefore, this article examines some of the issues arising from a survey which shows how Italian foundations make use of socially responsible investing. The results, together with some interesting cases of Italian foundations, are then presented and commented on according to the framework above. In the last section some concluding remarks and new future prospects will be presented.

The 'divergent strabismus' and ethical theories

Ethical theories help to interpret and judge business practices from a moral point of view; Beauchamp aptly observes that:

'Morality in the world of business evolves in the face of social change and critical philosophical argument; it cannot rely entirely on its own historical traditions. Its standards therefore need to be justified in terms of independent ethical standards such as those of public opinion, law, and philosophical ethics' (Beauchamp et al. (eds.), 2008, p. 18).

To gain a better understanding of the widespread behaviour of NPOs, to separate their investment policies from their mission declarations, it might be useful to read through the two widely discussed theories in the modern history of Western philosophy: the utilitarian and the deontological theories.

Utilitarian theoriesⁱ assert that the moral worth of actions is determined by their consequences. Mill's utilitarianism, which is still considered the standard statement of this philosophy, puts forward the 'principle of utility' as the foundation of this normative ethical theory whereby:

'Actions are right, Mill says, in proportion to their tendency to promote happiness or absence of pain, and wrong insofar as they tend to promote pain or displeasure. According to Mill, pleasure and freedom from pain are alone desirable as ends. All desirable things (which are numerous) are desirable either for the pleasure inherent in them or as means to promote pleasure and prevent pain' (Beauchamp et al. (eds.), 2008, p. 19).

Thus a practice is right if it leads to the 'best possible balance of good consequences over bad consequences for all the parties affected' (Beauchamp and Bowie, 1993, p.21) or, in other words, 'in any situation the 'right' action or policy is the one that will produce the greatest net benefits or the lower net costs' (Velasquez, 1988, p. 67). In addition, Mill also discusses a psychological foundation of the theory based on human nature stating that 'most persons, and perhaps all, have an essential desire for unity and harmony with their fellow human beings' (Beauchamp et al. (eds.), 2008, p. 19).

On the other hand, deontological theories suggest focusing on the respect of rules, principles or values independent of the consequences of the actions. 'One's *duty* is to do what is morally right and to avoid what is morally wrong, irrespective of the consequence of so doing' (De George, 1990, p. 63 - see also Rusconi, 1997). One of the most important interpreters of these theories is Immanuel Kant (1724-1804). His principles state that persons should be treated as ends and never only as means and motives for actions are also morally important. 'It expects a person to make the right decisions *for the right reasons*' (Beauchamp and Bowie, 1993, p. 29). 'Kant insisted that all persons must act not only in accordance with obligation, but for the *sake* of obligation. That is, the person's motive for action must be a recognition of the duty to act' (Beauchamp and Bowie, 1993, p. 30).

The description above, far from being complete, might be of some help to deal with

the challenging examination of the NPOs' 'diverging strabismus'.

Very often, it seems that NPOs' financial choices are dictated only by a specific financial aim: the patrimony invested must yield the maximum economical returns, as the greater the resources available, the more objectives that could be achieved. This seems to follow a consequential point of view. Therefore, as underlined above, the utilitarian theory pursues the happiness, pleasure or absence of pain for all the parties involvedⁱⁱ. To invest without any regard to the effects caused by investment policies could sometimes be costly for a number of individuals not only the beneficiaries of the NPOs' activities. This is the case, for example, of the widely discussed incident of the Gates Foundation, which, in January 2007, was publicly pinpointed for using money in a way that 'clashed' with their mission, putting "dark cloud over good works" (Los Angeles Times, 7-8 and 14 January 2007). In this specific situation, there was also a sort of 'paradox' as the people damaged by the investment policy and the beneficiaries of the Gates Foundation activity coincided, with an obvious decrease of the single and the global net benefit and with a notable reduction of the effectiveness of the organisation's achievement.

The deontological approach, that also requires coherence and respect of duties, values and principles, seems not to be completely supportive of the NPOs' decision to build a firewall between their grant-making and their investment policies. The need for consistency is absolute.

The question is more complex than it appears to be. To deal with this difficulty it is important to focus on at least two aspects: the identification of the duties of a foundation and the search for investments that are able to increase (or at least not to reduce) the organisation's attainment. These issues will be discussed in the following paragraphs.

The role of the mission for NPOs

The main 'legal duty' for companies, or in general for profit enterprises, is to create economic value (and to share it among its owners). So, the main parameters for assessing companies' performances are usually of an economical or financial nature and, consequently, the traditional and compulsory accounting documents (i.e. the financial statements, balance sheets, income statements, etc.) are of an economic and financial nature as well. However, this logical concept does not necessarily mean that a company's accountability can be fully achieved solely with the use of these kinds of documents. This view is surely challenged by the growth of supplementary information - such as social and environmental accounting and reporting, sustainability reports, triple bottom line reporting, etc. - aimed to provide an holistic view of corporate social responsibility.

In an even stronger way, in non-profit organisations profit, or more generally economic and financial aspects, play an instrumental role in relation to the more specific (and usually social) purpose of the organisation. For an NPO the attainment of an economic and financial equilibrium does not constitute the objective of juridical or institutional legitimacy, but it is 'only' a tool to guarantee the pursuit of its mission, under conditions of autonomy. A number of consequences derive from this principle, the most important being that the concept of 'institutional mission' for an NPO is much more elusive than for for-profit enterprises and, hence, it needs to be clearly defined and communicated in all its components (values, purpose and primary goal and activities or business) (see Allison and Kaye, 2005; Phills, 2005). The mission, in fact, also has a motivation function in order to induce people to invest time, energy and resources in the organisation. At the same time, this ability to attract financial and 'human' resources directly influences the capacity to undertake the activities necessary to fulfil its mission (Phills, 2005). Moreover, the nature of an NPO's mission implies an enlarged (compared with the 'sole' economic-financial aspect) and multidimensional system of strategic planning, managing, reporting and evaluation of performances.

Furthermore, companies can state their own mission, i.e. their *raison d'être*, detailing their own values, purposes and activities, but in the for profit sector the role of such declarations is less essential than in the non-profit sector.

As stated above, for both for profit and non-profit organisations, there is also a social responsibility that extends their duties beyond their 'strict legal' mission.

The 'institutional mission' should be considered, therefore, as the 'legal duty' of the organisation, and, hence, the guiding light for all NPOs' choices (including investment policies).

For all organisations (for and not for profit) in which an endowment fund exists devoted to specific purposes either by law, donors or members (this is the case of foundations but also of pension funds) there is a fiduciary duty towards the beneficiaries and/or the donors themselves. This duty comprises the following actions:

- achieving the purposes of the fund (mission);
- preserving the endowment fund;
- generating incomes by means of a careful management of investments, to accomplish institutional objectives.

The first action (also called mission or institutional duty) is closely connected with the necessity for coherence with the organisation's mission in all the activities and actions carried out. The last two have, indeed, an economic-financial content (economical duty). The success of the organisation and the actual achievement of its purposes depend on the capability of satisfying both these aspects of the comprehensive fiduciary duty simultaneously.

One aspect of particular salience is that socially responsible investments could be a way of meeting this requirement. The following paragraphs will be dedicated to the presentation of what is meant here by socially responsible investing and how these

practices could be a useful way of investing coherently with the organisation's mission and fulfilling its fiduciary duties.

Socially responsible investments: a brief review

As Cowton (2004: 249) pointed out 'ethical investment can be described, in broad terms, as a set of approaches which include social or ethical goals or constraints in addition to more conventional financial criteria in decisions over whether to acquire, hold or dispose of a particular asset'.

Ethical investors (Sparkes R., 1995 and 2002) usually adopt three different ways, often combined together, of introducing their values into investment choices,:

- screening
- engagement (mainly through shareholder activism)
- community investing

Together with the more traditional negative screenings, often called 'sin stocks' to their origin which was strictly linked to religious rules or duties – such as alcohol, tobacco and gambling - new principles, more closely linked to corporate social responsibility (CSR) practices, have been developed. In particular, besides the identification of some particular activities or industries deemed worthy of financial support being considered 'socially helpful' (e.g. agricultural or alternative energy management practices with low environmental impact, etc.), more and more complete and complex methods of analysis of the different aspects of the whole company and its management have progressively gained ground, in order to consider corporate social responsibility as an holistic vision of a company.

In the USA and the UK in particular, but in recent years also in other countries in which SRI is becoming increasingly important, the screening process is often backed by practices of engagement by which investors involve companies in socio-environmental issues. If the aim of social screening is to punish or reward some

practices, then the purpose of the social selection is to modify a specific behaviour in accordance with socially responsible principles. This action can be carried out in various ways; there may be a simple communication (to the company or to the public in general), as an attempt to begin a dialogue with the company or, in a more incisive manner, by the filing of shareholders' resolutions. This practice is often called shareholder activism. The reason why investors are encouraged to move towards such investments is, therefore, mainly linked to the possibility of using the voting right attached to ordinary shares to assert social, ethical or environmental objectives and to interact with companies whose social or environmental performances do not meet investors' expectations. Besides the different aspects of socio-environmental policies, shareholders seem to be very active on issues linked to corporate governance (for example the Investor Responsibility Research Center – IRRC data published in Social Investment Forum (2003) and (2006) and the Interfaith Center on Corporate Responsibility website -www.iccr.org).

Community investing is the third means by which ethical investors can operate. This practice indicates the form of 'financing that generates resources and opportunities for economically disadvantaged people in urban or rural communities ... under-served by traditional financial institutions'(Social Investment Forum, 2001, p. 20)ⁱⁱⁱ. This practice may be considered ethical in its ability to reach sectors, people, countries or geographical areas underserved by more traditional financial instruments, with the consequent expansion (and, in some cases, completion) of financial markets (Viganò, 2001). There have been numerous and varied experiences in this sector, (Viganò, 2001; Signori and Viganò, 1996), although they are all generally characterized not only by access to credit services for activities or people who would otherwise be excluded or penalized, but also by particular attention to the socio-economic impact the investment has or may have on the whole community, thus extending the benefits beyond the financed project. In this category we can again consider most of the leading Italian and international investment experiences in the Third Sector (or non-profit sector), as well

as micro-credit and micro-finance projects in underdeveloped countries or in other contexts of socio-economic marginality.

Why SRI for NPOs?

After this concise presentation of SRI, we will examine both the potential role that this particular form of investment could play in NPOs' investment policies and the influence NPOs could have in this financial market.

In actual fact, religious groups and NPOs have been the leading social or ethical investors both in the United States and in the UK (Sparkes and Cowton, 2004; Kreander et al., 2004; Guay et al. 2004). They have achieved two aims at the same time: the first being 'feel good' or 'have a clean conscience' (i.e. investing according to their principles and values) and the second to foster social changes (Schueth, 2003; Dembinski et al., 2003).

Moreover, nowadays, many issues chosen by investors as social screens or as engagement questions (environment, health, human rights, etc.) are closely connected with the institutional mission of NPOs (Solomon and Coe, 1997; Schaefer, 2004; Valor and del la Cuesta, 2007). There is, therefore, a community of interest in the same areas and values.

The influence that the non-profit sector could exert on companies or government (through engagement strategies) is particularly interesting for different reasons. The first is linked to the huge patrimonies some of the NPOs (foundations in particular) are endowed with and, consequently, the strong lobby that could be exerted through them. The other reasons, linked to the first – i.e. to the lobbying power - are related to the possibility of extending the effect of their policies to all those involved in the organisation (e.g. members, volunteers, employees, donors, beneficiaries, etc.) and to the public opinion in general. Finally, for matters related to SRI policies, NPOs may possess a specific and wide knowledge that could increase the effectiveness of their actions.

SRI or ethical investments seem, at least potentially, to satisfy the first aspect of the fiduciary duty, that is consistency with the mission. This is true on condition that the ethical or social content (declared and, of course, actually applied) of the investment reflect the NPO's mission statement.

The following section deals with the second dimension of the fiduciary duty: the economic-financial one.

SRI, performances and economic fiduciary duty

One of the aspects that, in recent years, has particularly interested academics and scholars has been the economic and financial sustainability of SRI. Hundreds of research studies, often empirical, have been dedicated to the analysis of the existence and the direction of the correlation between financial performance and corporate social responsibility in general, and ethical investment in particular (an in-depth list of these studies can be found in Signori, 2006). On the same subject see also Pava and Krausz, 1996; Rusconi, 1997; Kurtz, 2000; Tasch and Dunn, 2001; Viganò, 2001; Burke, 2002; and the website www.sristudies.org edited by Kurtz). Despite the attention dedicated to this field, the results still seem to be inconsistent. This could be due to the diversified offer of ethical or socially responsible products and to the presence of a series of causes which affect, with varying intensity and direction, the performance of different products (Signori, 2006). At this stage, we can, however, affirm that, at least in the long run, SRI performances are not so different from those of more traditional portfolios.

In actual fact, the ethical investor is moved not only by personal profit motives, but also by ethical or moral ones (some academics have already emphasized the need to enlarge the evaluation to more than just strictly economic considerations (e.g. Malkiel and Quandt, 1971; Bruyn, 1987; Tipper and Leung, 2001; Viganò, 2001; Basso and Funari, 2002 and 2003; Michelson et al., 2004; Beal, Goyen and Phillips, 2005).

Indeed, SRI economic-financial performance is one of fiduciaries' most widely debated questions. In particular, a lot of attention has been dedicated to the analysis of pension funds, but the same conclusions could also be extended to non-profit fiduciaries.

The core of the problem is the fear that the inclusion of selection criteria other than traditional, financial ones, could breach the fiduciary duty between fiduciaries and beneficiaries. Actually, some authors (including: Sethi, 2005; Smith, 2004; Kinder, 2004) have pointed out that the fiduciary duty could also be respected through a 'responsible' usage of the right linked to share ownership^{iv}. Shareholders' activism is particularly interesting because of the potential pressure and the consequent changes in corporate behaviour that such investors can induce. In particular, holders of fiduciaries and other long-term shareholders are interested in long-term performance and, thus, they tend to drive corporate behaviour in this direction. This possibility increases caution on the side of the management and leads to a demand for companies to invest in this practice even regarding such delicate questions as ethical code application, climate change, working conditions, socio-environmental impact of their actions, corporate governance, etc. (Smith, 2004; Sethi, 2005)^v.

One further consideration is that social responsibility evaluation allows opportunities to be discovered that are not immediately evident in a more traditional analysis (Moskowitz, 1972; Forum per la Finanza Sostenibile, 2004, p. 29). This is true, in particular, if we refer to the long term point of view which is usual for fiduciaries. In addition, companies that are careful to cause only minimum environmental damage, are aware of their stakeholders' responsibility and of the consequences of their actions, seem to 'minimize future financial risks emanating from imprudent or unsafe business practices' (Sethi, 2005, p. 101). This is, undoubtedly, coherent with safety and integrity: principles that should drive all fiduciary management processes (and those of any financial business).

Solomon and Coe (1997a; 1997b) draw a similar conclusion, with specific reference to fiduciaries of non-profit entities. In the conclusion of their argument they state that fiduciaries may consider social implications of their investment decisions, whether they are bound by the prudent investor rule or the business care rule, even though the Authors, in the case of prudent investment rule, subordinate social implications to financial considerations. They also maintain that only under the business care rule social and financial factors should be considered equally. In actual fact, this specification seems to be extremely vague and misleading since it gives the impression that it contributes towards supporting the 'firewall' between fund management and grant-making; the mission should then be completed by investment decisions only if it does not collide with financial performance. This is clearly in contrast with the 'mission or institutional' content of the fiduciary duty.

Perhaps a different interpretation is possible. Once again it is necessary to define exactly what the institutional mission is and separate it from other social, ethical or environmental questions that could be of interest but not binding on NPO. The definition of the 'mission perimeter' allows us to delineate the fiduciary duty. Investments are not to contrast with the social content of the mission statement (this would lead to an infringement of the institutional fiduciary duty) but, to maximize the effects obtainable by an organization, investments might follow the mission statement. However, the case of 'general SRI principles', i.e. not strictly related to the mission, is different. In this case Solomon and Coe's interpretation can easily be shared.

In any case, respect for both sides of the twofold 'fiduciary duty' (the institutional and the economical duty), seems to bring the two ethical theories, presented in the first paragraph, much closer together. In fact, the accomplishment of the overall mission statement is consistent with the deontological requirement of coherence. In addition, it is apparent that investing and fulfilling the purpose at the same time is a way of both furthering and expanding the effects of NPOs' activities and, therefore, inducing 'the greatest impact for the most people'. Furthermore, it is also worth noting the NPOs'

ability to reach a great number of people (members, volunteers, donors, beneficiaries, etc.) and to influence public opinion.

‘Investing ethically also presents the opportunity to send signals to their target member groups and, related to this, achieve strategically desired external effects that are in line with their organizational mission’ (Schaefer, 2004, p. 269).

In this way, as in a virtuous circle, the investors, companies and their behaviour may become more and more ‘socially responsible’ (in harmony with the so-called virtue ethics, another very important ethical theory, although less well-known than those mentioned previously).

In order to designate investment policies as coherent with NPO purposes, the term ‘mission-related investing’ has been coined (McKeown, 1997; Tash and Dunn, 2001; Emerson, 2003).

In reality, despite its huge and evident potential, the phenomenon remains limited even in markets like the USA, which support a consolidated SRI tradition (Tash and Dunn, 2001; Emerson, 2003).

Some recent research in Europe (in particular, Valor and de la Cuesta, 2007 for Spain and Schaefer, 2004 for Germany) have shown that the reasons why the Spanish religious groups and charities and German NPOs do not invest in SRI are to be found not for fear of incurring any loss of return (Schaefer, 2004) but rather in the lack of information about these instruments and in the lack of trust on how ethical funds are managed (Valor and de la Cuesta, 2007).

To contribute to the knowledge of the investment policies of European NPOs and their relationship with SRI, a study has been carried out on the Italian market.

Some insights into the Italian situation

The sample

In order to get an idea of the Italian situation a survey was conducted. At first, the intention was to investigate different kinds of Italian NPOs, hence some well-known associations were contacted. These organisations were quite doubtful as to whether they would have any responses but still they agreed to send out the questionnaire to all their associates by e-mail. The questionnaire was sent to about 160 NGOs (Non Governmental Organizations), 50 organisations, members of the Italian Third Sector Permanent Forum, 38 organisations, members of the Istituto Italiano della Donazione (Italian Institute for Donation), 28 foundations (private, corporate or 'community' foundations) members of Assifero (Italian Association of Foundations and Grant-making) and, without any intermediaries, to 88 banking foundations.

Owing to the limited response rate it was then decided to reduce the sample and to concentrate the analysis solely on the foundations. These organizations are particularly interesting for the vast amount of money they administer (and, consequently, their investment policies are of a certain importance) and for the long-term view they should have.

The questionnaire was, therefore, sent out directly in November 2008, not only to the 88 banking foundations, but also to 14 corporate or private family foundations and 14 community foundations - members of Assifero and 12 private foundations, members of the Third Sector Forum or the Italian Institute for Donation, making a total of 88 banking foundations (the whole Italian population) and 40 'other' private foundations. The objective of the survey was just to collect information on the attitude and knowledge of socially responsible investments by foundations, hence the decision to involve a limited number of organisations. This is to be considered as a first step for the purpose of both confirming interest on the research topic and for testing the questionnaire itself. The findings of this study should, therefore, be interpreted as

exploratory and should not be generalised. In any case, some interesting remarks can be made.

After a second reminder, 25 foundations agreed to take part in the survey: 18 banking foundations (almost 20%) and 7 'private' foundations (18%). According to the parameters set by ACRI (Association of Italian banking foundations and savings banks) respondents may be grouped as follows: 1 large banking foundation (total assets > 530 million euros); 3 medium-large (194 to 529 million euros); 4 medium (140-193 million euros); 3 medium-small (63-139) and 3 small (assets of less than 63 million euros). Four banking foundations have not declared the amount of their patrimony. Six of the 7 private foundations are small (less than 25 million) and just one medium-small foundation with total assets of about 78 million euros.

It is important to underline that 'on 31st December 2006 the book value of the net assets of the Banking Foundations amounted to € 47.1 billion (up 2.8% on 2005), accounting for 86% of total assets, or € 54.8 billion. Such net assets are spread over 88 organisations, varying widely in terms of size and scope of operations (www.acri.it). It is worth noting that the net assets of the 5 largest Foundations represent 49.3% of the total (www.acri.it). It is also useful to underline the fact that none of the 5 foundations mentioned as being the largest answered the questionnaire.

Central key results

All the foundations interviewed have heard, at least vaguely (7 out of 25), of socially responsible investing and 12 consider ethical or social criteria in their investment choices. Of these, just two foundations declare that they invest the whole of their patrimony: one in real estate investments committed to social housing, the second in a bank deposit account. Another 3 invest less than 10% of their endowment to achieve ethical aims, one from 10 to 25% and another more than 50% (5 give no indications). The most commonly used tool for socially responsible investment is the ethical fund.

The factor influencing the foundations' investment policies the most is risk reduction. Asked to rank the importance of three factors from 1 to 10, they give, on average, 8.48 to risk reduction, 5.86 to return maximization and 7.43 to coherence with their own mission (standard deviations were quite high, 2.38, 2.98 and 2.95 respectively). The results are quite different for the two groups. The banking foundations seem to be more aligned with risk reduction (μ 9.11; δ 0.90) and return maximization (μ 6.81; δ 2.14) compared with 'private' foundations (μ 6.86; δ 4.02 for the risk and μ 3.33; δ 3.61 for the returns).

When asked why they do not invest in a socially responsible way, ten foundations (out of 25)^{vi} pointed out that their mission is to guarantee the consistency of the patrimony and they were not, therefore, in a position to apply other investment criteria. Four seem to fear lower returns than traditional investments and 3 higher risks. Three foundations declared that they had not found investments in line with their own mission and another 3 declared that they do not believe in the effective application of ethical or social criteria by SRI. Only one seemed to be interested but it did not know how it could address the matter. Other reasons mentioned were the small size and a particular and restrictive investment policy. One even answered that the question had never been taken into consideration.

The risk-return issue seems to be the most relevant. In actual fact, 14 foundations (12 banking and 2 private) stated that they would be willing to invest in SRI in the future provided that the risk-return rate were aligned with one of the more traditional investments, while 10 required clear ethical or social principles, coherent with their own mission. Only 3 underline the need for trust on the effective application of the declared principles; 1 does not know, whilst 2 are not interested at all.

When asked to rate the importance (from 1 to 10) of different factors affecting the decision to invest in SRI, the foundations gave an average of more than 9 to the transparency of the criteria applied (9.24; δ 0.77) and clarity to the processes (9.05; δ 1.15) and a rate close to 9 to the possibility of controlling ex-post the actual application

of the declared principles (8.9; δ 1,25). Less importance was given to the presence and composition of an ethical committee (7.75; δ 2.12) and the possibility of participating in the determination of the criteria and investment choices (5.3; δ 2.64). These results show that there are no significant differences between banking and non-banking foundations with the exception of the interest in a more active participation in the process of setting criteria and selecting investment stressed by non-banking foundations (6.2; δ 3.6) compared with banking foundations (5; δ 2,30).

Only one foundation has already collaborated with an SRI institution and two have declared that they would be interested in some form of collaboration in the future.

As far as the SRI practices are concerned, only two banking foundations use microcredit as an ordinary tool while one supports an association which already uses it.

The engagement actions also seem to be unusual and quite unknown as all these foundations but two have never been engaged in practices to induce companies to change their behaviour. Only 2 (a banking and a non-banking foundation have disclosed information to consumers or investors. With specific reference to shareholders' activism, 11 organizations answered that they believe that they are not in a position to perform it; nine have never heard of it although 5 of them have shown some interest. Three think that they do not have enough patrimony to perform such actions (1 did not answer). None declared whether any of their members were on ethical committees.

Discussion

Contrary to other European NPOs (e.g. Valor and de la Cuesta, 2007 for Spain and Schaefer, 2004 for Germany) the Italian foundations analysed seem to have the perception of higher risks and/or lower returns on SRI. They are not used to selecting investments following ethical or social criteria or to making use of microcredit but their answers seem to reveal a certain interest in this sector. The conditions under which the foundations might be willing to invest in SRI are linked to both the possibility of

obtaining a risk-return rate in line with the market and the transparency (ex ante, during and ex post) in the criteria applied and in the processes. This seems to reflect the lack of information and the lack of trust highlighted in previous research (e.g. Valor and de la Cuesta, 2007).

With specific regard to mission consistency, the foundations declared that this is quite an important factor determining their investment choices, but it seems that they perceive their mission is more linked to preserving their properties, and, therefore, more similar to a constraint than being a stimulus to invest in a socially responsible way.

The Italian foundations interviewed seem to give the impression that they are more aware of the economic content of their fiduciary duty rather than of the mission-related one.

On the other hand, this sector is providing interesting insight. The 2008-2013 corporate plan drawn up by the largest Italian banking foundation (*Fondazione Cariplo*) is noteworthy. In its strategic planning of the patrimony administration, it states, as its primary aims, that the foundation is bound to spur the use of financial tools to meet its institutional mission and to reflect some fundamental ethical criteria. In the past, *Fondazione Cariplo* already showed interest in SRI by investing a large part of its assets in an ethical fund (Fondo GEO). In 2007, it decided to move this capital from Fondo GEO to a new investment company (Polaris Investment Italia). This investment company was founded by two Italian religious congregations, the *Salesiani* and the *Orionini*, and it is now held by *Fondazione Cariplo*. Its main activities include individual multimanager administrations and the promotion of funds to neighbourhood requalification and social housing (www.fondazionecariplo.it).

The latter is also on the agenda of some pivotal initiatives of non-profit and public sectors. Just to mention a few, at the end of 2008, *Regione Veneto* and the *Fondazione Cassa di Risparmio di Padova e Rovigo* promoted the launch of '*Fondo Veneto Casa*', an initiative aimed to enable disadvantaged persons to rent a house

(www.padovanews.it). Also *FAV-Fondazione Ambrosiana per la vita* supports a project to give a home, at a controlled rent, to mothers with their children and to families facing difficult moments (www.favambrosiana.it). *Oltre Venture*, set up by *Fondazione Oltre*, on the other hand, is a social venture capital company, supporting the growth of enterprises which are able to meet social values and economic sustainability (www.oltreventure.com).

These are only a few, recent examples. To extend the picture of the Italian situation, particular mention must be made of the recent experience of *Fondazione Culturale Responsabilità Etica*, part of *Banca Etica's* System, on promoting and performing shareholders' activism. In 2008, this foundation submitted resolutions to the annual shareholders' meeting of two important companies (www.bancaetica.com). It is interesting to note how this network (*Banca Etica's* System) distinguishes the 'advocacy' campaigns, promoted by the Foundation and called '*azionariato critico*', from the 'shareholders' activism' (*azionariato attivo*) exerted by the investment management company, *Etica sgr*.

Far from being exhaustive, this description reveals a recent and growing interest by Italian foundations to use their money to foster their missions. The ways and means are numerous. Emerson (2003; p. 41), for example, presenting different best practices of USA Foundations', indicates five primary ways for implementing a value maximizing (mission coherent) strategy of financial asset management such as: engaged investing of mainstream assets; socially responsible investing of core assets, investing in alternative asset classes and small and medium enterprises; low-interest loans and below market-rate investments in non-profits; and investing in a way that may favour significant corporate transformation. These practices seem to reflect the three strategies (screening, engagement and community investment) usually adopted by ethical investors. Some focus more on the destination of the money, while the latter, concentrates on enhancing corporate behaviour.

As regards the first aspect, an interesting and still uncommon tool (for Italy) is the so-called Program-Related Investing. A Program-Related Investment (PRI), as defined by USA law (Reg. § 53.4944-3 quoted in Cerny, 1999), has the primary purpose of accomplishing one or more of the charitable purposes of an organisation. PRI could be adopted not just as a way of investing the foundation endowment but also as an alternative grant-making instrument (McKeown, 1997; Cerny, 1999; Chernoff, 2000). There are situations in which grants could be less effective than a loan, and as a matter of fact, this tool could be successful.

As an added inducement for foundations, Chernoff (2000) states that, in the US, the amount of the program-related investment reduces the asset base upon which the 5-percent annual distribution requirement is applied. He also underlines the fact that any repayment of a PRI increases the foundation's possibility of enlarging its activity. This Author suggests different ways of promoting Program-Related Investments: 'interest-free or below-market rate loan (most common), loan guaranty, letter of credit, equity investment, low-interest-rate deposit with a bank or other financial institutions linked to lending for charitable or other exempt purposes'.

On the other hand, Guay et al. (2004), suggest a framework to understand how NPOs can be most influential in shaping the ethical and social responsibility orientations of businesses using SRI as a primary influencing vehicle. Following this scheme and developing the analysis, we can identify four possible roles NPOs, or foundations in particular, can play besides the more traditional investments:

- NPOs as advisors/consultants for ethical or social questions. This is the case, for example, of a 'Green Foundation' that could give advice on environmental matters, but also of all those wider ranging initiatives promoting ethical principles. This category could also include the frequent presence on the ethical committees of ethical funds or other financial instruments, of non-profit representatives^{vii};

- NPOs as advocates, to press other shareholders, in particular institutional investors, to change managerial behaviour;
- NPOs as Shareholder Activists to engage directly with companies (as in the case of Fondazione Culturale Responsabilità Etica, for example);
- NPOs as SRI Fund Sponsors (see the examples quoted above).

Conclusions and final remarks

This paper aimed to investigate whether and to what extent it is possible for NPOs, and for foundations in particular, to break down the firewall between mission attainment and investment policies. It has been argued that the fiduciary duty to which organisations that manage endowments are subjected, has two different facets: the mission or institutional duty and the economic-financial duty.

For NPOs, respect for the institutional duty is binding on all the activities of the organisation. Therefore, in order to be consistent with their mission (and to foster their actions further), their investment policies have to be coherent with their purposes. SRI (socially responsible investing) could be a way, but only if it is consistent with the NPO's specific aims. Other choices, i.e not strictly mission-related SRI, could be made by NPOs as a 'socially responsible' choice.

From the empirical study, the difficulty of Italian foundations in engaging with mission-related investment practices seems to emerge, even though some significant insights are given. The current financial crisis, that is deeply affecting the foundations' patrimonies, could also help to re-think more prudent, long-term investment policies.

To deal with existing limits, an effort must be made on different sides. The foundations require a cultural change (this refers particularly to banking foundations which are still involved in the process of gradually divesting their patrimony from their respective spin-off banks. This could, therefore, be the right time to re-define their

investment policies). From the SRI side, more transparency, comprehension and coherence on the application of socially responsible criteria is required. In order to achieve this aim, active cooperation between NPOs and SRI protagonists could be of great help. Governments could also encourage these practices, first of all, by passing laws which allow foundations to engage explicitly in this kind of investment policy, but also by sustaining and promoting such initiatives (e.g. Program Related Investing in the USA).

Once again the imagination and creativity of Italian NPOs, as shown in the examples mentioned in the paper, will always lead to new ideas for achieving their mission through investment decisions, enforcing, as a consequence, their efficiency and efficacy.

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Notes

ⁱ The first utilitarian philosophical writings were those of David Hume (1711-1776), Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873).

ⁱⁱ Arrow, in particular, has extended the application to utilitarianism from single/individual to social utility.

ⁱⁱⁱ The name '*community investing*' is mainly used in Anglo-Saxon countries. In other countries, financial actions meant to support economic development are indicated and defined in such terms as 'credit policy' or 'cause related investments'. Regalli, Soana and Tagliavini (2005) prefer to use 'cause-based investing'. Furthermore, Cowton (2002, p. 397) prefers the term 'affinity', because 'in various fields it stands for relationship by choice, a mutual attraction or resemblance'. Similarly, in French speaking countries, the term '*proximité*' is used.

^{iv} 'The SEC [U.S. Securities and Exchange Commission] has now categorized proxy voting as a fiduciary duty. Hence, a trustee must exercise the same degree of care as she/he does in managing money' (Kinder, 2004, p. 6).

^v Recent financial scandals underline the growing importance of paying attention to all those practices that may influence the long-term value. Sethi (2005, p. 109 and p. 111), in particular, upholds the idea that 'recent scandals have amply demonstrated that senior management has effective control of corporate assets which they mobilize primarily with an eye to maximizing their own compensation and only secondarily towards increasing shareholder value'. Pension funds, like other 'big investors' 'must behave as active shareholders with the mission of reducing agency costs by making corporate management more accountable to shareholders'.

^{vi} For this and the next question, respondents could choose from more than one answer.

^{vii} Research conducted by Avanzi SRI Research and SiRi Group shows that 3 out of 8 Italian ethical funds have NPOs' representatives in their ethical committees and 4 out of 8 have ecclesiastics (www.avanzi-sri.org).

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