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Non-profit Organisations and Socially Responsible Investments: The Case of Italian Foundations

Silvana Signori

Abstract

In times of turmoil and of meagre resources, both socially responsible investments (SRI) and non-profit organisations (NPOs) must strive hard to find new opportunities to make their activities more and more effective.
The possibility of using criteria other than the more traditional risk-return parameters has been on the agenda of various different fiduciaries. For NPOs, in particular, there seems to be a wide gap between the managing and the granting of funds.
This paper aims to investigate if, and to what extent, it is possible for NPOs, and for foundations in particular, to break down the barriers 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 duty.

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

1 – Introduction

The background of non-profit organisations (NPOs) is one of the richest and most varied worldwide. The ways in which NPOs operate, the activities they carry out, the dimensions they reach, etc. are so varied that it is sometimes very difficult to think of them as a single sector (ie, the Third Sector). What mostly connects these experiences together is the fact that the main reason why a non-profit organisation (NPO) exists is not usually of an economic (or financial) nature. 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 basis of all the NPOs' decisions and activities. In actual fact, it frequently appears to be a 'firewall' between fund management and 'grant-makers'. Such a separation seems to be consistent with the way most NPOs (including 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: 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 of the role of the NPOs' mission statements 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 their endowment and to generate those incomes which are deemed to be necessary to serve the NPOs' purposes (economic duty) in respect of the overall institutional mission (institutional or mission's 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 NPOs' fiduciaries also have the same potential (Guay *et al.*, 2004; Sparkes and Cowton, 2004; and on NPOs' fiduciary duties: McKeown, 1997; Solomon and Coe, 1997a,b).

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Despite these possibilities, the phenomenon still remains limited even in markets like the USA, which uphold a consolidated socially responsible investing (SRI) tradition (Tasch and Dunn, 2001; Emerson, 2003).

Recent research in Europe (in particular, Valor and de la Cuesta, 2007 for Spain; and Schaefer, 2004 for Germany) has 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 in a lack of information about these instruments and in the lack of trust in how ethical funds are managed (Valor and de la Cuesta, 2007). These findings give us a first insight into the European NGOs propensity towards 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.

This topic is particularly relevant in times, like these, in which the economic and financial crisis has dramatically reduced the resources available for NPOs' social activities. It is, therefore, time to rethink policies to make their actions increasingly effective.

2 – The 'divergent strabismus' and ethical theories

Ethical theories help to interpret and judge business practices from a moral point of view. 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 outline two widely discussed theories in the modern history of Western philosophy: the theories of utilitarianism and deontology.

Utilitarian theories 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* (Beauchamp *et al*. (eds), 2008: 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: 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: 67). On the other hand, deontological theories suggest focusing on the respect of rules, principles or values regardless 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: 63; see also Rusconi, 1997). One of the most important interpreters of these theories is Immanuel Kant (1724-1804). 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: 30).

The descriptions above, far from being complete, might be of some help in dealing with the challenging examination of the NPOs' 'diverging strabismus'.

NPOs' financial choices are often dictated only by a specific financial aim: the net assets must yield maximum returns, as the greater the resources available, the more objectives that can be achieved. This seems to follow a consequential point of view. Therefore, as underlined above, the utilitarian theory pursues happiness, pleasure or absence of pain for all the parties involved. To invest without any regard to the effects caused by investment polices can 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 accused of using money in a way that 'clashed' with their mission, putting a '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 in the single and the global net benefit and a notable reduction of the effectiveness of the organisation's achievement.

The deontological approach, which also requires coherence and respect of duties, values and principles, does not seem 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. 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 reduce) the organisation's attainment of its mission.

These issues will be discussed in the following paragraphs.

3 – The role of the mission for NPOs

For non-profit organisations, as their name suggests, 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 a NPO, the attainment of an economic and financial equilibrium 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 an '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 motivational 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. The use of 'public' resources likewise implies a duty of accountability which is stronger in NPOs than in for-profit organizations.

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. 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)[1].

For all organisations (for- and not-for-profit) in which an endowment fund exists devoted to specific purposes either by law, donors or members, 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 the 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 capacity to satisfy both of these aspects of the comprehensive fiduciary duty simultaneously.

[1] 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.

One aspect of particular salience is that socially responsible investments may 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.

4 – Why SRI for NPOs?

In this paper, a wide definition of ethical or socially responsible investment is assumed. 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'.

In this sense, consideration is given to the three different ways (often combined together) that ethical investors (Sparkes, 1995 and 2002) usually adopt to introduce their values into investment choices and these are:

- *screening*, that is the practice of selecting companies or activities based on social (or ethical) criteria;
- *engagement* (mainly through *shareholder activism*), aimed at influencing corporate behaviour positively;
- *community investing*, through which capital is provided to people on a low-income, to activities or communities at risk, to social projects, which usually have difficulty accessing credit.

The potential role this particular form of investment could play in NPOs' investment policies and the influence NPOs could have in this financial market still seems to be underestimated.

In fact, religious groups and NPOs have been the leading social or ethical investors both in the US 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 to 'feel good' or 'have a clean conscience' (i.e., investing according to their principles and values) and the second to foster social change (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, 1997a, b; 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 rea-

sons. The first is linked to the net assets dimension some of the NPOs (foundations in particular) are endowed with and, consequently, the strong pressure 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) 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 on both SRI and NPOs themselves.

SRI or ethical investments seem, at least potentially, not only to satisfy the first aspect of the fiduciary duty, that is, consistency with the mission, but also to be a tool for strengthening the effectiveness of their actions. This is true on condition that the ethical or social content (declared and, of course, actually applied) of the investment reflects the NPO's mission statement.

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

5 – SRI, performances and economic fiduciary duty

The economic and financial sustainability of SRI has been of particular interest to researchers in recent years. Hundreds of research studies, often empirical, have been dedicated to the analysis of the existence and 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 the performance of different products with varying intensity and direction (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.

Indeed, SRI economic-financial performance is one of fiduciaries' most widely debated questions. In particular, much 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[2]. 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 in regard to such delicate questions as ethical code application, climate change, working conditions, socio-environmental impact of their actions, corporate governance, etc. (Smith, 2004; Sethi, 2005). The recent crises and previous financial scandals have underlined the growing importance of paying attention to all those practices that may influence the long-term value.

One further consideration is that social responsible evaluation allows opportunities to be discovered that are not immediately evident in a more traditional analysis (Moskowitz, 1972; Forum per la Finanza Sostenibile, 2004: 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 and 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: 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 and b) 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 social and financial factors should be considered equally only under the business care rule. 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

[2] '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: 6).

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: 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; Tasch 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 (Tasch 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 context.

6 – Some insights into the Italian situation

6.1 – *The sample*

In order to explore 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 doubtful as to whether they would have any responses, but they still agreed to send out the questionnaire to all their associates by e-mail.

Owing to the limited response rate it was then decided to reduce the sample and to concentrate the analysis solely on the foundations: banking and 'other private' foundations.

Banking foundations play a peculiar and particularly active role in Italy's social and economic life, both as philanthropic institutions and as important institutional investors. They originated in the early 1990s as a result of the separation, by law, of the banking and charitable activities of Savings Banks and Pledge Banks. They have substantial resources that generate an income which is used to accomplish their institutional purpose, i.e., to support various collective-interest sectors (art and culture, education, research, support for the underprivileged, local community development, etc.) (ACRI 2010).

In recent years, 'other private foundations', in particular corporate foundations, have also gained importance in the Italian context. This growth is shown in the recent report published online by Fondazione Sodalitas and Altis (2009).

While the sample does not, therefore, represent the Italian NPO scenario, foundations are particularly interesting for the vast amount of money they administer (much more than most Italian NPOs) and for the long-term view they should have.

The questionnaire was, therefore, sent out directly, in November 2008, to 88 Italian banking foundations (the whole Italian population) and 40 'other' foundations; the latter include: 14 corporate or private family foundations and 14 community foundations – members of Assifero (Italian Association of Foundations and Grant-making) – and 12 private foundations – members of the Third Sector Forum or the Italian Institute for Donation.

The objective of the survey was 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 in 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.

After a second reminder, 25 foundations agreed to take part in the survey: 18 banking foundations (almost 20 per cent) and 7 'private' foundations (18 per cent). According to the parameters set by ACRI (Association of Italian Banking Foundations and Savings Banks) respondents may be grouped as follows:

Table 1 – Foundations studied

	Banking foundations	**"Other" private foundations**
Large (net assets from 603 mil. euros)	1	
Medium-large (205-602 million euros)	3	
Medium (135-204 million euros)	4	
Medium-small (64-134 million euros)	3	1
Small (less than 63 mil. euros)	3	6
Not declared	4	

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, spread over 88 organisations, varying widely in terms of size and scope of operations. The net assets of the five largest Foundations represent 49.3 per cent of the total (ACRI 2008). None of the five foundations mentioned as being the largest answered the questionnaire.

6.2 – *Central key results*

All the foundations interviewed[3] have heard, at least vaguely (seven out of 25), of socially responsible investing and 12 declare that they consider ethical or social criteria in their investment choices. Of these, just two foundations declare that they invest all their net assets: one in real estate investments committed to social housing, the second in a bank deposit account. Another three invest less than 10 per cent of their endowment to achieve ethical aims, one from 10 to 25 per cent and another more than 50 per cent (five 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, 10 foundations (out of 25)[4] pointed out that their mission is to guarantee the consistency of their endowment and they were not, therefore, in a position to apply other investment criteria. Four seem to fear lower returns than traditional investments and three higher risks.

Three foundations declared that they had not found investments in line with their own mission and another three affirmed 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 two 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 three underlined the need for trust on the effective application of the declared principles; one did not know, whilst two were not interested.

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 of 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 foun-

[3] Interview schedule and questions are available from the author.

[4] For this and the next question, respondents could choose from more than one answer.

dations (5; δ 2.30).

Only one foundation has already collaborated with a 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 but two of these foundations have never been engaged in practices to induce companies to change their behaviour. Only two (one banking and one non-banking foundation) have disclosed information to consumers or investors. With specific reference to shareholders' activism, eleven organisations answered that they believe that they are not in a position to perform it; nine have never heard of it although five of them have shown some interest. Three stated that their net assets are not enough to perform such actions (one did not answer). None declared whether any of their members were on ethical committees.

6.3 – *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 to be linked more to preserving their properties, and, therefore, more similar to a constraint rather 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 it states, as its primary aims, that the foundation is bound to use financial tools to meet its institutional mission and to reflect some fundamental ethical criteria[5].

Neighbourhood regeneration and social housing are also on the agenda of some pivotal initiatives of non-profit and public sectors. To mention just a few: the *'Fondo Veneto Casa'*, an initiative aimed to enable disadvantaged persons to rent houses promoted by *Regione Veneto* and the *Fondazione Cassa di Risparmio di Padova e Rovigo* and the projects supported by *FAV – Fondazione Ambrosiana per la vita* to give a home, at a reduced rent, to mothers and their children and to families facing times of hardship. *Fondazione Oltre*, on the other hand, set up *Oltre Venture*, a social venture capital company, supporting the growth of enterprises which are able to meet social values and economic sustainability, while *Fondazione Culturale Responsabilità Etica*, part of *Banca Etica*'s System, is committed to promoting and performing shareholders' activism.

Far from being exhaustive, this description reveals a recent and growing interest on the part of Italian foundations to use their money to foster their missions. The ways and means are numerous. Emerson (2003: 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. Another interesting and still uncommon tool (for Italy) is the so-called Program-Related Investing that 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 Program-Related Investment (PRI) reduces the asset base upon which the 5 per cent 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.

On the other hand, Guay *et al.* (2004) suggest a framework for understanding how NPOs can be most influential in shaping the ethical and social responsibility orientations of businesses using SRI as a primary influencing vehicle. We can identify four possible roles NPOs, or foundations in particular, can play

[5] In the past, *Fondazione Cariplo* 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*) co-founded with two Italian religious congregations, the *Salesiani* and the *Orionini* (www.fondazionecariplo.it, accessed 14 July 2009).

besides the more traditional investments:

- **NPOs as advisors/consultants** for ethical or social questions[6];
- **NPOs as advocates**, to press other shareholders, in particular institutional investors, to change managerial behaviour;
- **NPOs as shareholder activists** to engage directly with companies;
- NPOs as **SRI fund sponsors**.

To establish and/or strengthen ties, it is necessary beforehand to clarify the ethical contents of both SRI and NPOs' missions. Talking about SRI without a critical approach may prove pointless and even hazardous. Despite the general and, to a certain extent, shared definition of the phenomena, the practical application of abstract concepts and values is quite different from one SRI product to another, with the risk of being driven sometimes as much by marketing concerns as by a real change in investment practices. Signori (2009) shows differences in the Italian market, but the situation is mostly the same worldwide. The fiduciary duty asks for coherence. It is therefore necessary not to refer to a generic SRI, but to find those investments that deal specifically with the different mission obligations (e.g. charity, but also the local community commitment that characterizes banking foundations). An active collaboration will, most likely, find *ad hoc* solutions able to meet the requirements of both SRI and NPOs.

This involvement could in fact be fruitful for both parties: for NPOs to identify which investments best fit their needs and, therefore, increase their mission compliance and, as a consequence, the efficiency and efficacy of their action; for SRI to find new opportunities and ways to apply their principles and values in a practical manner and to increase their knowledge of specific ethical questions (this could be the case, for example, of a 'green foundation' which, while seeking the best investment solution, could also give specific advice on environmental matters).

Consequently, they could become advisors to each other.

This close relationship will probably also weaken the lack of trust shown in the questionnaires.

Moreover, this 'new role' would also increase the awareness of SRI on markets, such as Italy, where they are still not well known (the general lack of awareness of SRI may be common to the whole investment sector in Italy rather than specific to NPOs).

To set up a cooperation of this type, a serious commitment is required on both sides.

[6] 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 church-based (www.avanzi-sri.org).

7 – 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 their mission 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 in mission-related investment practices seems to emerge, even though some significant insights are given. The current financial crisis that is deeply affecting endowments compels foundations 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 equity shares 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 and to find new and increasingly effective ways to operate, an active cooperation between NPOs and SRI protagonists would be of great help and of reciprocal benefit. Governments could also encourage these practices, first of all, by sustaining and promoting such initiatives (e.g. PRI in the USA) and also by passing laws which allow foundations to engage explicitly in this kind of investment policy.

The imagination and creativity of Italian NPOs, as shown in the examples mentioned in the paper, should lead to new ideas for achieving their mission through investment decisions, responding positively to the challenge raised by this critical time of turmoil and enforcing, as a consequence, their efficiency and efficacy.

As regards the survey in particular, its objective was just to collect general information on the attitude and knowledge of socially responsible investments. The findings have given rise to a number of questions to be investigated in further research: the reasons for adopting (or not adopting) SRI; the processes NPOs carry out and the alliances and relationships they form

in so doing (e.g. the degree to which the various bodies either made use of external fund managers, or ethical advisors, rating agencies, etc., or invest by themselves); the role of the social and economical context (e.g. how the global crisis has affected the foundations' investment policy); and how intrinsic characteristics (the dimension, the nature – e.g. banking or non banking foundations, the age, the history, the local community rootedness) could affect the decision to invest in SRI.

These and other questions are open to new investigations.

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