Putting Our Money Where Their Mouth Is:
Alignment of Charitable Aims with Charity Investments - Tensions in Policy and Practice

Niklas Kreander (Telemark University College)
Vivien Beattie (University of Glasgow)
Ken McPhail (University of Glasgow)

Dr Niklas Kreander is Associate Professor of Finance at Telemark University College. Vivien Beattie and Ken McPhail are Professors of Accounting at the University of Glasgow.

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Address for Correspondence:

Dr. Niklas Kreander
Telemark University College
Hallvard Eikas Plass
N-3800 Bø i Telemark
Norway
E- mail: Niklas.Kreander@hit.no

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Abstract

Given the values-driven nature of the mission of most charities, it might be expected that investment behaviour would be similarly values-driven. This paper documents the ethical investment policies and practices of the largest UK charities and explores how these are aligned with the charitable aims, drawing upon accountability, behavioural and managerial perspectives as theoretical lenses. The study employs two distinct research methods: responses to a postal questionnaire and follow-up semi-structured interviews with selected charities. The evidence indicates that a significant minority of large charities do not have a written ethical investment policy. Charities with larger investments, fundraising charities and religious charities were more likely to have a written ethical policy. We suggest that there is a pressing need for improved alignment between charities' aims and their investment practices and better monitoring of investment policies.

Keywords: charity; ethical investment; evidence-based policy-making; dissonance; values alignment

1. Introduction

It is estimated that UK charities in 2006/7 had £91 billion in assets and an income of £2.6 billion from investments (National Council for Voluntary Organisations (NCVO), 2009). Whereas companies have a profit motive, charities have a charitable motive which is often ethically driven due to the religious, social, or ecological purpose of the charity (Schaefer, 2004; Gray et al., 2006). Many charities are, however, concerned about financial matters as investments provide an important source of income, making them less dependent on (volatile) individual giving, government grants or any single source of funding. This can result in tension between the financial investment motive (the maximisation of investment returns to maximise the financial resources available for undertaking charitable activities) and the ethical investment motive (potentially forsaking an element of investment return to ensure investment activities are not in conflict with charitable activities).

Recent growth in the UK charity sector,[1] together with shortcomings in the information provided by some charities, has led to increasing demands that charities should be transparent and accountable (Association of Chief Executives of Voluntary Organisations (ACEVO), 2003; National Council for Voluntary Organisations (NCVO), 2004; Gray, Bebbington and Collison, 2006).[2] Concern about the accountability of charities has been raised by Harrow, Palmer and Vincent (1999) and Kovach, Neligan and Burall (2003). Of particular concern is the observation that the monitoring incentives of key stakeholder groups (i.e. beneficiaries and donors) are generally much weaker in not-for-profit organisations in comparison with for-profit organisations, where investors (and other stakeholders such as customers and employees) have direct economic incentives to assure themselves of good stewardship and management.

The way in which charity funds are invested is an important aspect of the accountability of charities towards their stakeholders (in particular, beneficiaries and donors[3]) (Ebrahim, 2003a; Schaefer, 2004; Keating and Frumkin, 2003). Given the values-driven nature of the mission of most charities, it might be expected that investment behaviour would be similarly values-driven. A 2001 National Opinion Poll (NOP) UK survey indicated that 40% of the 2000 respondents preferred to donate to a charity with an ethical investment policy and 30% thought that charities ought to invest ethically. For the purposes of this paper we adopt the following definition of ethical investment:

> '*Ethical or socially responsible investment are terms used to describe any area of the financial sector where the social, environmental and ethical principles of the investor (whether an individual or institution) influence which organisation or venture they choose to place their money with. It also encompasses how an investor might use their power as a shareholder to encourage better environmental and social behaviour from the companies they invest in*' (Ethical Investment Research Service (EIRiS)).[4]

Without an explicit ethical investment policy, there is a risk of tension between the expectations of donors, investment managers and charity staff. For example, the Bill and Melinda Gates Foundation has been criticised for failing to align the aims of the charity with its investments (Piller, Sanders and Dixon, 2007).

Thus, a specific issue that arises in relation to ethical investment by charities is the extent to which the charity's investments align with (or at least are not in direct conflict with) its aims.[5] For example, investment in tobacco would be in direct conflict with the charitable aims of a cancer charity, whereas investment in pornography, while considered undesirable, does not create the same conflict. In the context of charity investment, there is a risk that shareholdings in corporations that could be viewed as being in conflict with the objectives of a charity could alienate donors. The professional press notes that charities are 'looking to align their portfolios with their mission' (Cahill, 2005).

Regulation regarding ethical investment by charities has been evolving in line with societal attitudes towards social, environmental and ethical issues (Charity Commission, 2003; 2005 and Meakin, 2005). Gradually, charities have been given greater freedom to pursue an ethical investment policy and requirements to report this policy have been introduced (Charity Commission, 2005). Surprisingly, given the significance of charity investment in the UK, there is not much academic research focusing specifically on charity ethical investment. The purpose of this paper is to begin to address this gap by documenting the charity ethical investment policies and practices of large UK charities, exploring how these policies and practices align with the aims of the charitable organisation and commenting on any gap. The specific aims of the study are to:

1. Provide evidence on the existence and nature of ethical investment policies of large UK charities, relating this to charity characteristics.
2. Examine how UK charities monitor their ethical investment policies.
3. Explore how these policies align with the aims of the charitable organisation.

The remainder of the paper is organised as follows. The next section reviews selected literature on charity regulation, ethical investment and values alignment. The research methods employed in the study are outlined in section three. The results are presented in section four and section five offers a number of conclusions and recommendations. These findings can contribute to evidence-based policy-making by charity regulators (Buijink, 2006; Fearnley and Beattie, 2004).[6]

2. Charities and ethical investment

This section explores prior literature relevant to our investigation. Section 2.1 describes charity regulation relating to ethical investment, section 2.2 discusses prior empirical studies of charities and ethical investment and section 2.3 reviews the emerging literature on theoretical perspectives on charity accountability and ethical investment.

2.1 Regulation of ethical investment

Although the Charity Commission definition of an ethical investment policy emphasises the use of positive or negative ethical criteria or 'screens' (2003, section F, paragraph 80), an ethical investment policy may also include engagement (in the form of dialogue) with company management on ethical issues. This dialogue can take place either directly between the charity managers and the investee company, or indirectly through the charity's fund managers. Finally, charities, as owners of shares in a company, may use their voting rights in relation to shareholder resolutions (in particular those relating to ethical issues) at company annual general meetings (i.e. vote their shares) (Kreander, 2001; Green, 2003).[7] Screening (positive and negative) and engagement (which may include share voting) are, therefore, the two main forms of ethical investment.

The regulatory environment within which charities operate has witnessed some significant developments. Since at least 1987, the Charity Commission has acknowledged that charities should not invest in companies whose activities are contrary to the purpose of the charity (Sparkes, 1995). Another accepted reason for charity ethical investment in English law is to avoid 'hampering the work of the charity' (Luxton, 1992). This can happen if the charity alienates beneficiaries and donors by investing unethically. Furthermore the Trustee Act 2000 requires charity trustees to make sure investments include 'any relevant ethical considerations as to the kind of investments that are appropriate for the trust to make' (Charity Commission, 2002).

Guidance on charity investment, issued in 2003 from the Charity Commission of England and Wales (CC14), gave charities greater freedom to implement an ethical investment policy (Charity Commission, 2003). While a fiduciary duty is still given primary importance in most cases, this guidance recognises that there does not have to be a conflict between the fiduciary duty and an ethical investment policy.

A Statement of Recommended (accounting) Practice (SORP) for charities was issued in 2005. Where material investments are held, trustees should explain, as part of the financial review section of the trustees' report, 'the investment policy and objectives, including the extent (if any) to which social, environmental or ethical considerations are taken into account' (Charity Commission, 2005, para.55(d)). This is similar to the regulation for pension funds which came into force in 2000. Donors may want ethical investment information to be assured that the charity complies with legal requirements, but also to ensure that the charity works effectively to achieve its aim(s). Some donors prefer charities that can demonstrate that their investments do not contradict their purpose. Indeed, the provision of such evidence could increase donations.

2.2 Empirical studies of socially responsible investment and charity ethical investment

The management and financial performance of ethical investment funds

The criteria, operations and performance of retail ethical investment funds (i.e. funds available to individual investors) have been studied extensively in the UK and elsewhere (Harte, Lewis and Owen, 1991; Perks, Rawlinson and Ingram, 1992; Friedman and Miles, 2001; Kreander, 2001; Miles, Hammond and Friedman, 2002). Cowton (2004) adopts a single case-study approach to explore the management of financial performance at an ethical investment fund. Evidence was collected from attendance at the fund's advisory committee (also attended by the fund manager), and study of meeting minutes. There was evidence that the fund manager and other committee members believed that ethical constraints might reduce financial return; in the face of poor financial performance, the fund relaxed its ethical constraints. This demonstrates that such pressure can result in tension between policy and practice at the operational level.

There is a significant body of literature that investigates the impact on returns of the adoption of socially responsible investment (SRI) (i.e. ethical investment). The evidence is, however, mixed, with recent studies indicating that, contrary to the prior beliefs of many, SRI returns are higher (Kempf and Osthoff, 2007) or at least not lower (Collison et al., 2008; Cowton, 2004).

Charity approaches to ethical investment

Charities however, despite having far larger ethical investments than retail funds and having a far longer history of ethical investment, have not been extensively studied in the accounting literature. In this section we first consider evidence from outside the UK and then discuss the UK evidence on charity ethical investment.

In Canada, in-depth interviews with 14 large charities revealed that five of these charities employed ethical screens, but only one voted its shares on ethical issues (Plant, 2003). The main barriers to ethical investment were the perceived time involved and the attitude of fund managers. Plant argues that charities could achieve far more by adopting more ethical investment practices. In North America some charities vote the company shares they own at company annual general meetings on ethical issues as part of the engagement (Guay, Doh and Sinclair, 2004).

Schaefer's (2004) investigation of the investment behaviour of German non-profit organisations is based on 110 questionnaire responses. It was found that 59% of organisations considered environmental or social criteria in their investment decisions and religious organisations used ethical criteria more frequently than other charities. Armaments was the most frequent negative screen, followed by nuclear power and alcohol/tobacco. The vast majority expected a return on SRI comparable to a non-SRI benchmark, with the remainder split between whether a higher or lower return was expected. Valor and de la Cuesta (2007) study the demand for SRI by Spanish religious groups and charities. Based on 31 questionnaire responses, they find that only 13% have a written SRI investment policy. The main constraints on ethical investment were viewed to be the lack of information about suitable products and the lack of trust in the management of these funds; poor financial performance was not a major constraint.

Turning to the UK, general surveys of charity investment (ACEVO, 2003; JP Morgan, 2003; 2005; 2008) have referred in places to SRI. The survey in ACEVO (2003) asked charities about the use of ethical and SRI screens and found that 22% of the 219 responding charities employed such screens. The JP Morgan (2003) survey found that 39% of 134 charities had an ethical investment policy. The more recent JP Morgan (2005 and 2008) surveys did not cover ethical investment issues but found that, in general, more charities were pursuing high risk asset classes (such as hedge funds) because they believed, mistakenly, that these would maximise returns.

Green (2003) is the only prior UK study we know of that employs interviews and a questionnaire to study charity ethical investment. Green found that 40% of the 57 questionnaire respondents (all large charities) had an ethical policy. In most cases this policy was limited to ethical screening, typically avoiding sectors such as tobacco and armaments. A few charities with more developed exclusion policies were identified. An example was Barnardos, which had negative screens relating to child exploitation and pornography in addition to those above. Our study extends the work of Green by surveying a larger sample and by studying how charities monitor their investments.

2.3 Theoretical perspectives on charity accountability and investment

Despite the growth in both size and importance of the third sector over the past few decades, the area of charity and broader NGO accountability remains relatively under explored and untheorised (see Unerman and O'Dwyer, 2006a). The few studies that exist within the accounting literature draw upon perspectives developed within the context of corporate social accountability, i.e. mainly stakeholder theory (Unerman and O'Dwyer, 2006b, Gray et al., 2006). In this paper, we draw upon three theoretical perspectives: accountability theory as it applies to charity stakeholders, Cognitive Dissonance Theory (a behavioural perspective) and reputation management (a managerial perspective).

Stakeholder perspective

There is a wide diversity of potential charity stakeholders (Gambling and Jones, 1998) and the literature contains different models. Ebrahim (2003a) for example identifies three primary sets of accountability relationships for charities: relationships with funders; relationships with clients; and relationships with sector regulators. Keating and Frumkin (2003) however present a broader model incorporating, the board of directors, donors, clients, communities, staff and the government. In her study of charity branding, Hankinson (2001, see also Vinten, 2001) identifies employees, trustees, donors, non donors, journalists and government representatives as amongst the charities primary stakeholders. While a number of studies identify broadly similar groups of primary stakeholders, different terminology is used. Gray et al. (2006), for example, employ the terms donor and client/beneficiary while Unerman and O'Dwyer (2006a), in the introduction to a special issue on NGO accountability, employ the terms clients and beneficiaries and funders and donors interchangeably. Schaefer's (2004) study mentions members and donors while Harrow et al. (1999) refer to clients and donors. Drawing on the literature, this paper focuses on five key stakeholder groups in terms of charity accountability: donors, beneficiaries, trustees, regulators and staff.

We use the term donor and funder interchangeably to refer to the accountability relationship between a charity and those who provide funds. We use the term beneficiary to refer to those who benefit from the activities and/or grants from the charity. We use the term staff to refer to both volunteers and paid employees; paid employees can, in turn, be divided into senior management and others.

One strand of literature draws on stakeholder theory in order to model accountability relationships within NGOs. Unerman and O'Dwyer (2006b), for example, explore two dimensions of stakeholder relationships within NGOs; a horizontal dimension, relating to the significance of the distance between NGO management and stakeholders, and a second vertical dimension that distinguishes between upward accountability to funders and downward accountability to beneficiaries. Gray et al. (2006, p.335) also analyse NGOs from a stakeholder perspective, arguing that, 'accountability is, definitionally, about the rights of society (or groups/stakeholders within society) and relates to the rights that emerge from the relationship between the accountable organization (the accountor) and the accountee. In this (as with so much else in the principles of accountability), NGOs are no different from other organizations.'

However, while this emerging literature draws on well-known theoretical lenses, much of it concludes that established theories of corporate accountability do not fit neatly into the charity sector (Unerman and O'Dwyer, 2006b; Gray et al., 2006; O'Dwyer, 2008). Gray et al. (2006), for example, point out that the nature of the relationship between NGOs and their stakeholders, including their funders, is not a simple economic relationship. They comment:

> *'the relationship may not be – nor needs to be – as formal and as distant as that between a shareholder and company… Matters such as trust, emotion, conscience, social contracts, mutuality etc. all enter into the relationship.'*

While we contend that economic relationships can have more emotional content than Gray et al. (2006) imply, we agree that the accountability relationships between charity and NGO stakeholders have been more values based and emotional in nature (see also McPhail, 2004).

This important emotional aspect of charity stakeholder relationships seems to be related to the second of two different types of accountability noted by Unerman and O'Dwyer (2006b), relational accountability and identity accountability. They explain (2006b, p.353), 'accountability can be broadly conceived of as a relational issue – being answerable to and held responsible by others, or as an identity issue – being answerable to ideals or missions and one's own sense of responsibility' (Ebrahim, 2003a,b; Najam, 1996). They go on to say (p.356), 'Individuals and organisations may therefore feel a "responsibility" (Sinclair, 1995, p.221) to be accountable or "answerable" (Shearer, 2002, p.541-573) to themselves (Najam, 1996) in the form of their values, mission and culture' (Lewis and Madon, 2004). We think that this sense of identity accountability in connection to notions like organizational values and mission, can be related to the emergence of charity ethical investment policies. For example, Anheier (2004) observes that the importance of values is a 'distinct feature' of many non-profit organisations. He proposes, as a strategic management tool, the 'alignment model', which seeks to ensure consistency between the organisation's mission and resource base (p.263). Investment returns represent one important type of (financial) resource for some charities, and, as Schaefer (2004, p.284) contends, in his study of German NGOs:

> *'[ethical investment] opens up a way for them to incorporate and reveal their particular principles not only in their activities, but also in their investment decisions. The resulting consistency and decisiveness of the organizational mission in performance and finance matters can strengthen the credibility of the organization in its environment (e.g. towards potential members or donors)'* (Schaefer, 2004).

It would therefore seem that, charity ethical investment may be conceptualised in relation to a more overtly emotional and values based nature of the accountability relationship and may be particularly related to notions of 'consistency' (Schaefer, 2004) and 'alignment' (Anheier, 2004).

Behavioural perspective: Cognitive Dissonance Theory

Our second theoretical perspective suggests that notions of consistency and alignment in relation to charity investment may be usefully understood by reference to Festinger's (1957) Theory of Cognitive Dissonance. This suggestion builds on Unerman and O'Dwyer's (2006b) useful distinction between relational and identity accountability, and also Gray et al.'s (2006) emphasis on the emotional characteristics of NGO accountability relationships. The basic premise of the theory is that individuals naturally prefer to behave in a manner consistent with their values (Schlicht, 1984). Cognitive dissonance is defined as the uncomfortable feeling (stress) caused by holding two contradictory ideas simultaneously (for detailed discussions, see Eiser, 1994; Brady et al., 1995; and Harmon-Jones and Mills, 1999). Dissonance either has to be resolved or managed and Brady et al. (1995) identify five dissonance management options: revoking the original decision; increasing the appeal of the chosen option; reducing the appeal of the other available options; increasing the similarity between the options; and avoiding any information that might cause further concerns. Festinger's argument is essentially that individuals either revoke the decision or re-appraise the situation to make their decisions more consistent with their values. Although this theory has been challenged and developed over the years, it remains influential (Harmon-Jones and Mills, 1999), with Schlicht (1984) advocating that the basic premise of utility maximisation within economics be replaced with the maximisation of cognitive consistency.

We suggest that Festinger's Theory might usefully be applied to charitable giving in three ways. Firstly, it explains the dissonance that sometimes arises when donors discover that their donation has been used for purposes inconsistent with their expectations (e.g. when they discover that their contribution to an animal welfare charity was invested in a company involved in animal testing). Secondly, it may explaining why charities introduce ethical investment policies – to reduce the dissonance experienced by trustees, management and employees upon realising that there is a conflict between investment practices and the charity's aims[8]. Finally, it may explain how some charities manage dissonance – by convincing themselves that the implementation of an ethical policy is untenable because the information does not exist or would be too costly to procure (Brady et al., 1995; Plant, 2003).

Managerial perspective: Reputation management

Within the management literature, a small number of studies focus on a possible link between charity ethical investment and reputation management from an instrumentalist perspective using stakeholder theory (Schaefer, 2004). One particular issue that has been discussed in relation to charities is the importance of the management of a charity’s intangible resources, such as reputation and brands. Reputation is defined as the public’s perception regarding the charity’s consistency, trustworthiness and reliability (Bennett and Rentschler, 2003) and these perceptions have been connected to the trustees’ ‘capacity to manage finances, stakeholders and mission’ specifically in relation to fundraising activities and the use of charity resources (Bennett and Rentschler, 2003; Schaefer, 2004, p.284; Bennett and Gabriel, 2003). Also within this literature, it is contended that non-profit brands, are negatively affected by ‘association with undesirable corporations’ (Laidler-Kylander, Quelch and Simonin, 2007, p.259). In the case of both reputation and brand, the investment of financial resources in a way that is viewed by stakeholders as inappropriate would destroy trust, reputation and brand value. Schaefer (2004, p.284) in his study of the investment practices of German NGOs, contends that:

> ‘*an investment behavior that is ethically consistent with the organizational mission can be linked to an improved reputation, which because of the special importance of external income may have beneficial effects on securing and expanding the financial basis).*’

Within the accounting literature, Goddard and Assad (2006) (see also Gray et al., 2006) similarly contend that accountability systems and mechanisms are used by NGOs as part of the processes for establishing and maintaining trust, primarily in relation to their donors. They suggest, for example, that the names of well-known donors are often used to provide symbolic reassurance to potential funders.

3. Research methods

The study employed a postal questionnaire and interviews to explore ethical investment practices by UK charities. The interview method adopted may be classified as a cross-sectional field study. Lillis and Mundy (2005) observe that this method closes the gaps between surveys and case studies and the method has been applied to explore a variety of research issues (e.g. in Byrne and Pierce’s (2007) investigation of the role of management accountants). In common with other studies using this method, we sought to understand the interpretations of our interviewees rather than trying to discover generalisable causality or natural laws (Deegan and Blomquist, 2006), thereby implicitly adopting a relativist perspective throughout the interviews. The study was conducted using this mixed methods approach in order to facilitate the cross-checking of findings and also to reap the benefits of triangulation (Jick, 1979; Patton, 2002).[9] Prior to each interview, we studied documents such as the Annual Report and the Annual Review of the charity and also examined their website.

3.1 Sample selection

The study focuses on the largest UK charities (in financial terms) with investments. Three measures of size were used: income (perhaps the best measure of size for fundraising charities); funds (perhaps the best measure for grantmaking charities); and investments (given the focus on investment practices). We identified the top 120 charities based on each of these three criteria from the *Top 3000 Charities 2004/05* publication (Caritas, 2004). Many charities met more than one of these three criteria. After eliminating duplicates, and twenty charities with no investments, a pool of 197 distinct charities remained. These 197 charities represented investments of more than £30 billion, they had funds amounting to £36.5 billion and they had an income of approximately £8.8 billion. Of these 197 charities, 117 were grant makers.

3.2 Postal questionnaire instrument and administration procedures

A postal questionnaire was sent to the finance directors of these 197 charities, the first mailing taking place in November 2004. The four-page research instrument used primarily closed-form questions and contained four main sections. Questions were primarily developed from a review of the prior literature. Section A asked about the existence and nature of the charity's ethical investment policy. Section B covered implementation, monitoring and reporting. Section C asked for views on possible regulatory reform and ethical investment returns. Section D asked for the respondent's name and position and willingness to be interviewed.

The questionnaire was pilot tested during interviews with three charities and the content was revised accordingly. Academics also provided feedback on the pilot questionnaire. All questionnaires were accompanied by a letter which explained the background to the research and gave an assurance of confidentiality of responses. The letter was personally signed by each of the three researchers and accompanied by short biographies of the research team and a stamped, return envelope.

A second mailing of the research package was sent out in January 2005. In total, 88 usable responses were received (a rate of 45%). On the assumption that late responders are similar to non-responders (Oppenheim 1966, p.34), we tested for non-response bias by comparing the responses to numerical questions between the first and the second mailing using Levene's test and a non-parametric test. The results show that there were no statistically significant differences between early and late respondents. Although this test is limited in value (see Wallace and Mellor (1988) for a discussion), we conclude that non-response bias is not a serious problem in this study and the respondents represent a representative sample of the largest UK charities.

Univariate tests were undertaken to explore the association between charity characteristics and attributes of their investment policy. The charity characteristics used were: size of investments (the top quartile was compared to the bottom quartile), type (grantmakers versus fundraisers, based on the Caritas (2004) classification) and sector (religious versus non-religious, based on the Caritas (2004) classification). Drawing on our review of the theoretical literature on charity accountability and ethical investment we expect large charities, fundraising charities and religious charities to have higher incentives to align mission and investment and hence be more likely to have a formal ethical policy.

3.3 Interviews

The final question in the survey asked if the respondent would be willing to be interviewed to allow issues to be explored in more detail. Of those who expressed willingness, we selected eleven charities for interview, seeking to sample across a range of background charity characteristics such as status, sector and size, following the advice of Eisenhardt (1989). It was found that the last few interviews yielded little that was new, suggesting that theoretical saturation had been reached. An interview was also conducted with a fund manager specialising in responsible investment for charities. Interviews were semi-structured and covered key common issues. In addition, most interviews had supplementary unique questions based on preparatory reading of the charity's reporting documents and on their questionnaire responses. The interviews allowed us to probe more deeply into the issues raised in the postal questionnaire. In particular, it was possible to ask 'why' questions and ask for processes to be described ('how' questions). In addition, more detailed responses were obtained and any unclear questionnaire responses were also queried.

Interviewees were guaranteed anonymity in any research output. The interviews typically lasted around one hour. Interviews were recorded and fully transcribed.[10] Notes were taken at each interview and written up immediately after the interview. In addition, informal discussions were held with senior staff of two other charities. All the interviewees had several years of experience of charity investments. We interviewed senior financial staff for charities 1-3 and 5-11 (see Table 1). The trustee for charity 4 was an investment professional who had been a trustee for more than 30 years. The interviewee at Fund Manager 1 was an ethical researcher with responsibility for charity clients. The majority of the interviews took place in London in 2004-5, but interviews were also carried out in Edinburgh and York.

[Table 1 about here]

These interviews were analysed using thematic content analysis, supported by the N6 computer software (Gahan and Hannibal, 1998). High level codes in relation to ethical investment policy included: background, motivation, strategies, operationalisation, consequences and conflicts with aim. Lower level codes existed for many categories. The transcripts from four interviews (33% of the cases) were coded by at least two researchers to check for consistency. Any differences were discussed and coding practices were amended where necessary. Overall, the consistency in coding between the researchers was high.

4. Findings

This section presents the findings from the questionnaire responses and interviews in relation to the three specific research aims: existence and nature of ethical investment policy; monitoring of the policy; and alignment of charitable aims with investment policy. Within each aim and for each major issue relating to the aim, findings are presented first from the questionnaire, then from the interviews.

4.1 Research aim 1: Existence and nature of ethical investment policy

Existence of ethical policy

Under the revised SORP (Charity Commission, 2005), for accounting periods starting after April 2005 charities are required to state whether or not they have an ethical investment policy. This study reports data collected at the end of 2004 and beginning of 2005 and hence predates this requirement. Of the 88 respondents, 48 (55%) reported that their charity had a formal (i.e. written) ethical investment policy, seven charities (8%) had an informal (i.e. unwritten) ethical investment policy and the remaining 33 (37%) had no ethical investment policy. Thirty-two (two thirds) of those charities with a written policy had published it (i.e. disclosed it in their annual report, annual review and/or website), while the remaining 16 (one third) had not. In univariate chi-squared tests, the three charity characteristics (size of investments, type of charity and sector) were found to be significantly associated with the existence of a written ethical investment policy. Thus, charities with larger investments, fundraising charities and religious charities were more likely to have a written ethical policy (see Table 2).

[Table 2 about here]

The proportion of large UK charities with a written ethical policy appears to have increased in recent years (Green (2003) reported 40% compared to the 55% in the present study). Green noted that a third of the charities with no written policy were considering implementing one in the next 12 months, and three of the 88 charities (3.4%) in this study reported that their formal written policy had existed for less than 12 months. The lower incidence of ethical policy in the ACEVO (2003) UK survey (only 22% of responding charities had an ethical screen) can be attributed to the inclusion of a greater proportion of smaller charities. Results from the present study are similar to those found in the German context (Schaefer, 2004).

In general, most interviewees were supportive of having an ethical policy, as this quote from a social service charity demonstrates:

'It is very difficult for a charity to argue that it is not in the interests of its beneficiaries to have an ethical policy of some sort.' [Trustee, social services, £149m investments]

This sentiment has similarities to the argument put forward by Cahill (2005) that:

'As the range of options grows…the excuse for not finding investment solutions that match the financial and ethical needs of the organisation dwindles'.

General nature of ethical policy

Table 3 shows the nature of the ethical investment policy of the responding charities. Screening was by far the most common strategy used to implement the ethical policy, with negative screening (i.e avoidance of certain industries) being three times more frequent than positive screening. Dialogue was the next most common strategy, with indirect dialogue (i.e. the fund managers, rather than the charity itself, engaged with the investee companies) being five times more frequent than direct dialogue. Share voting was least common. These results are similar to Green (2003), with the exception that positive screening was the least common method of ethical investment in his study. Our results are also similar to ACEVO (2003), Schaefer (2004) and Valor and de la Cuesta (2007), in that few respondents voted their shares and screening was the dominant ethical investment strategy.

[Table 3 about here]

The expressed views of interviewees serve to explain the questionnaire findings which showed that engagement and voting were the least common approaches to ethical investment (Table 3). Some of the interviewees had a negative perception of engaging directly with company management on ethical issues. They preferred to use the screening strategy. If there was engagement it tended to be indirect, through the fund managers. Direct engagement was seen as 'political' by some interviewees and many interviewees thought they lacked the expertise (and the time) to do it themselves:

'That is more political lobbying…' [Head of Finance, social services, £273m investments]

> *'I don't believe that we have sufficient knowledge here to instruct the managers. When they are doing that ethical work they are asking the questions directly themselves.'* [Executive Secretary of Finance, international activities, £108m investments]

This passive attitude also extended to voting company shares:

> *'Our position is purely that we view our investments not as a tool for advocacy but purely to raise the cash that is necessary.'* [Head of Auditing, international activities, £43m investments]

This quote clearly expresses a functional, rather than strategic, view of investment activities. Either the potential for tension is not recognised (thus no cognitive dissonance is created) or it is managed by reducing the appeal of the strategic option.

By contrast to the previously quoted charities, a few charities took a very active approach to their investments. This active approach does not imply that these charities always expected radical change from companies, but rather engagement was used to raise top-management awareness about (non-financial) issues that the charities perceived to be important:

> *'…for example the GSK remuneration issue where that was not actually voted down was it, but it was such a large scale vote against that the pressure was on the company and they had to reform their policies and we voted against the management there.'* [Head of Equities, medical, £[confidential]m investments]

Some charities expressed a financially-driven motivation for engagement, seeing it as 'good business', as the following quote from a large medical charity suggests:

‘*We have a policy of engagement with companies, we still see the purpose of that engagement to be ultimately to maximise shareholder value so if we were looking at environment, for example, you might make the case that having double skinned tankers makes environmental sense but also makes sense for the company because if you pollute half the French coast it is going to be quite a commercial hit for you. So we accept that there is an overlap between these softer, perhaps not immediately quantifiable, factors and companies delivering good long term shareholder value.’* [Head of Equities, medical, £[confidential]m investments]

This type of financially-driven engagement is likely to be followed by many of those charities who only engage indirectly via their fund managers. Indeed, one interviewee mentioned that many financial institutions are poorly governed and ridden with conflicts of interest and may not therefore be very effective in engaging companies on ethical issues.

Specific nature of negative screening

Table 4 shows the number of responding charities employing various negative ethical screens. Forty-four (50%) of charities employed a negative screening approach. The most common screen was tobacco, followed by weapons and pornography. Less common screens were environmental damage and climate change. The ‘other’ category included screens such as animal testing and ‘sanctity of life’ employed by a few charities.[11] In previous survey research, tobacco and weapons were also top concerns mentioned by charity trustees and charity management (Green, 2003; Schaefer, 2004; Valor and de la Cuesta, 2007).

[Table 4 about here]

The interview evidence revealed, however, three distinct practical problems that charities encountered when attempting to implement their ethical policy. As a consequence, implementation was often partial. First, because many companies engage in multiple, connected activities, a percentage limit was placed on company revenue from (or derived from) the negative screened activity. For example, a charity adopting a 'tobacco' screen would only exclude companies that were tobacco producers or derived more than 10% of their revenue from tobacco sales. This practical way of implementing the screen is illustrated by the quote below. This cancer charity actually excluded seven companies based on their tobacco screen:

> *'We wouldn't fund anyone who would receive any funding from the tobacco industry. We won't invest in any companies that have. There is a definition that we follow - EIRiS definition - so we do have stock with maybe a company like Sainsbury's because although they maybe sell cigarettes it is a trivial part of their activities.'* [Director of Finance, Medical, £69m investments]

Second, outside the UK, product availability (lack of suitable ethical funds) was cited as a barrier to ethical investing. This led to an inability to implement ethical investment policy fully in all countries:

> *'You either had no screens or you had to accept all of these screens….we have had in the past and still have quite a lot of unit trusts, particularly overseas, and we are not investing sufficiently to get specifically screened portfolios in many countries of the world. Often the information isn't available so we disclose the policy but we are not disclosing the implementation of the policy.'* [Executive Secretary of Finance, international activities, £108m investments]

The charity claimed that because of this limited product availability it had invested in a fund which only avoided tobacco companies in North America, although their ethical policy states that they also exclude alcohol and armaments manufacturers.

Third, the growth of charity investment in hedge funds (JP Morgan, 2003; 2008) is causing severe implementation difficulties. Hedge funds typically have a high return investment strategy that does not consider any ethical issues. One interviewee commented on the problem of hedge fund investments as follows:

> *'We have had new problems in that previously we didn't have hedge funds so then now we are having to apply our policy to hedge funds to the extent that that is possible. We restrict our investments to 10%, but we are not able to apply that strictly to what is actually being done with hedge funds.'* [Executive Secretary of Finance, international activities, £108m investments]

The interviewee admitted that: *'We have no idea what they are investing in.'* In other words, the ethical policy did not apply to the hedge fund investment.

However, both this interviewee and another one argued that any conflict with the ethical policy arising from the hedge fund investment was likely to be a 'short term' issue since hedge funds tend not to invest for the long term, instead engaging in 'day trading'. We do not think that this argument is entirely persuasive; it seems clear that hedge fund investment generally causes a conflict between the ethical investment policy of the charity and its actual investment praxis.

4.2 Research aim 2: Monitoring ethical investments

This section is based on 61 respondents rather than the total 88 because charities without an ethical policy did not answer this part of the questionnaire.[12] Table 5 details the 8 approaches relating to how charities monitor their ethical investment policies. Some respondents (11) did not monitor the implementation of the ethical policy at all. Of these charities, half (5) had a formal written ethical policy. In fact 30 of the charities used only one mechanism to monitor the policy. Eighteen charities among our survey respondents used two or three of the methods mentioned in Table 5 to monitor the implementation of the ethical policy.

[Table 5 about here]

The most common way to monitor implementation was through regular reports from the fund managers to the trustees. For six charities the ethical research organisation EIRiS was involved in monitoring the implementation of the ethical policy, but two of these used no other mechanism to monitor the fund managers. We are concerned that for many charities either the trustees or management may be unaware of how the policy is implemented. The findings reported in ACEVO (2003) also revealed unsatisfactory monitoring of fund managers by charities and the report advocated improved monitoring.

The interviews revealed further detail regarding the monitoring process and activities. Implementation of the ethical investment policy was generally delegated to external fund managers, as the following quote demonstrates:

> *'We put the onus on the managers to do that research and exclude those companies so when they sign their investment management agreement (a legally binding document) they also sign a letter with regards to the tobacco policy and it is down to them to adhere to that. Now we do run a check on the obvious companies that we are aware of through our global custodians and we will get a report from them if any company that looks like a tobacco company appears on our register but really we try to put the onus onto the managers. Every quarter you get a report of the voting record ....and the engagement report.'* [Head of Equities, medical, £[confidential]m investments]

Only a few charities checked up on financial performance and how it is affected by the investment policy in greater detail. An example of how one international charity dealt with monitoring their fund manager is provided below. They used the WM Company, a leading firm in investment performance analysis:

> *'What used to worry me was that if you put an ethical constraint on something your advisors will always use that as the reason for why you under perform and we got involved with WM, …, we paid extra and we got this special report which actually quantified how much of the loss or gain was due to the constraints that we put on and how much was due to stock selection.'*
>
> [Head of Auditing, international activities, £43m investments]

This reflects the concern of three interviewees that financial institutions may use ethical screens as an excuse for poor performance. The questionnaire findings also indicated that for some charities the monitoring of investments was inadequate. Therefore, it is important for charities to monitor both the implementation of the ethical policy and the financial performance (ACEVO, 2003; Wood, 2003). Our findings suggest that most charities rely primarily on their fund managers for this, as is illustrated by the quote below:

> '*We are not able to look at every stock we have got. We need to delegate that to someone who does know that and given Merrill Lynch's strong charity background they are the right people.*'
> [Director of Finance, Medical, £69m investments]

One charity had largely relied on the (financial) press to help it with the monitoring of its investment policy. The quote below illustrates how about one-third of the charities interviewed did something themselves to monitor their ethical investment policies:

> '*When I was responsible for the investments here I used to do it myself or someone else in the department would do it for me. Read through the Financial Times to cover everything about companies and note anything that might be relevant and then we would raise it with our investment advisors*.' [Head of Auditing, international activities, £43m investments]

4.3 Research aim 3: Alignment of the investment policy with the aims of the charity

According to Luxton (1992), charities can have an ethical investment policy to avoid conflicts with the aim of the charity, to avoid hampering the charity's work and in certain other cases. The most important factor was avoidance of conflict with the aims of the charity, whilst the second most important factor was maximisation of investment return. We explored what charities thought about alignment of aims and investments in our questionnaire. Table 6 reports the importance of different factors relating to the ethical investment policy, shown in descending order of importance.

[Table 6 about here]

We also asked charities what had caused them initially to develop an ethical investment policy. Among the 44 respondents, the key reason was harmony between aims and investments.[13] Specifically 'church teaching', 'wishes of the founder' and 'belief of the sisters' were mentioned in this context. The second most important reason for developing an ethical investment policy was to protect the reputation of the charity.[14]

Alignment of aims and investments was also investigated in the interviews. The following interview quotes illustrate the acknowledged need for harmony between a charity's aims and investments and hint at the dissonance that could arise if this harmony was not maintained:

> *'Our ethical investment policy is to avoid investment in sectors which have been historically areas where the Society of X have wished to avoid being in conflict - in some ways with the testimonies of the Society.*[15] *So armaments conflict with the Society's peace testimony for example…'* [Director of Finance, philanthropic intermediation, £210m investments]

> *'You can say as the World Wildlife Fund for example: 'We won't invest in oil companies because we think it is harmful to the environment' and you can say that because by investing in some oil companies our donors may not then give us money. So there is that balancing of the reputational risk of the charity.'* [SRI analyst, financial institution, £5000m investments]

Again the findings would seem to suggest that efforts to align mission and investment policy may represent an attempt to resolve or avoid dissonance. Also, the second most important reason given in the questionnaire for developing an investment policy (protecting the charity's reputation) may be related to donor dissonance and the potential of reduced donor revenue.

However, set against the need for harmony was recognition of the tensions that can arise. For example, a trustee of a grantmaking charity acknowledged the need for harmony between aims and investments as follows:

'But it has always seemed to us that being responsible shareholders is just as much a duty as being responsible in the way we give away the income from the investments.' [Trustee, social services, £149m investments]

In order to minimise any conflict between its investments and aims, the charity stated in its questionnaire return that it is very important for their fund manager(s) to have 'intellectual and preferably some emotional understanding of a client's ethical position'.

The following quote demonstrates how difficult it can be to construct an ethical investment policy for a general grantmaking charity:

'We don't have specific constraints ourselves. We are not a medical charity so we don't have tobacco or other sort of health constraints there. We are involved obviously in areas where conflict is an issue and therefore armaments are an issue but we are not seen as being an organisation where it would be wholly inappropriate for us to be in an armaments company with armaments components for instance. Therefore we are not in a position where we need to screen – we are in a position where trustees should be looking at best performance.' [Finance Director, philanthropic intermediation, £118m investments]

A significant aspect of the grantmaking side of this charity is relief of poverty and suffering in Africa. This is why the interviewee admits that armed conflict is an issue. Nevertheless he continues to argue that the charity can invest in armament manufacturers. Indeed, in their questionnaire return, this charity states that:

'The portfolio consists of managed funds, including high yield corporate bonds, property and hedge funds. Ethically constrained funds do not exist in these fields.'

The nature of the investments of this charity made it difficult to implement an ethical investment portfolio.[16] However, this did seem to generate a degree of dissonance for some senior staff within the charity as they claimed to have ‘an informal (unwritten) ethical policy’ and they also stated that ethical investment matters were discussed at meetings. In conclusion, it seemed that the ethic that applied to the investments of this charity was ‘to maximise investment return’ even when there was a tension with the aims of the charity.

Consultation with stakeholders

Only 5% of the respondents to our survey had consulted donors or beneficiaries about their investment policies. Interestingly, however, one interviewee mentioned that they regularly receive correspondence from members[17] of the charity who seek assurance that investments are not made in companies involved in animal testing such as Huntington Life Science [Cash & Investment Manager, conservation, £14m investments]. Based on our findings most charities would not score highly on the stakeholder participation dimension of accountability.

4.4 Discussion

Drawing on the theoretical perspectives from section 2.3, these findings in relation to the three aims of the study can be interpreted as follows. Looking first at the existence and nature of ethical investment policies within charities (aim 1), the prominence of ethical investment policies amongst fundraising charities seems consistent with the theory that these types of charities may be more concerned with managing their reputation (Schaefer, 2004), and reducing cognitive dissonance in existing and potential donors. We also found evidence of dissonance within charity senior management. Also, as Unerman and O’Dwyer (2006b) suggest, the prominence of ethical investment policies amongst religious charities may be related to identity accountability and a strong sense of accountability to an ideal. Similarly, the finding that one third of charities who stated that they had an ethical investment policy did not report this policy indicates that, for these charities, ethical investment may be more about identity accountability to mission and values, rather than reputation management.

As might be expected, no definitive picture emerges for the role of ethical investment within charities. While there is evidence that some charities view their investments primarily in functionalist terms as a way of funding their activities, for other charities, investments are viewed in strategic terms and linked to the overall mission of the organisation. What is clearer is that some charities do not fully implement their written ethical investment policies in practice. Regrettably some charities seem to manage this potential dissonance among employees and donors by providing limited investment disclosure.[18] Such behaviour would conflict with the transparency dimension of accountability discussed by O'Dwyer (2008).

Findings in relation to the monitoring of ethical investments (aim 2) do not fit well with the view that charity ethical investment can be explained simply in terms of a strategic intent to manage reputation (Bennett and Rentschler, 2003; Schaefer, 2004). Developing an ethical investment policy and then failing to monitor its implementation seems like a rather risky approach to reputation management. It would appear that most charities could improve their performance in relation to monitoring the implementation of their ethical policies. Better monitoring of the policy, in conjunction with reporting on it, would also improve accountability to donors.

Turning to the third aim of the study, our findings in relation to the alignment of investment policy with the aims of the charity suggest that some interviewees thought that members and staff of charities are concerned with alignment and, while some charities have considered this matter, alignment is far from perfect in the best of cases and non-existent for many charities. An ACEVO (2005) survey found that most charity CEOs believed that donors trusted their judgement on how to spend the money. If harmony between aims and investments matter, then many charities have scope for improving their ethical investment policies and disclosure on these policies. Improved charity investment processes and reporting will also improve accountability (O'Dwyer, 2008).

Charity practice in relation to the investment of charitable resources can, therefore, be criticised on a number of fronts. First, although it might be expected that investment behaviour would exhibit the same values-based nature as the mission of the charities, this was not the case. A significant minority of charities had no ethical investment policy. Of those which did, some policies were high level and generic, seeking only to avoid socially undesirable investments. Such a policy is most likely to be driven by a managerial desire to avoid the loss of credibility, trust and reputation. The 'success' of fundraising charities especially would be adversely affected, through the loss of donations.

5. Conclusions

This paper has presented evidence, based on 88 questionnaire responses and 12 interviews, on the existence and nature of ethical investment policies adopted by large UK charities, how charities monitor these policies and the extent to which the policies were aligned with the aims of the charities. The paper drew on emerging accountability, behavioural and managerial perspectives to conceptualise charity ethical investment. While these perspectives have some resonance with the findings of this study, it is clear that charity accountability is complex, nuanced and not fully explained by existing theorisations.

Just under two-thirds of charities had an ethical policy (mostly formal) and the most common approach to ethical investment was the use of negative ethical screens. Typically, charities sought to avoid tobacco and weapon producing companies, while individual survey respondents mentioned issues such as climate change and the sanctity of life. The interviews also revealed some charity-specific screens, such as genetic engineering for a conservation charity.

Direct engagement with company management was rare; engagement was mostly undertaken indirectly through a fund manager. The voting of shares on ethical issues by charities was even less common, although a few charities did engage with their investee companies in this way. Overall, these findings are similar to those reported in the literature for the UK, Canada and Spain (Green, 2003; Plant, 2003; Valor and de la Cuesta, 2007). A majority of the interviewees thus thought of their investment practices simply as a support function that enabled them to finance their activities, rather than a strategic function that could be used to further the aim of the charity. In terms of monitoring their investments, most charities relied on reports from their fund managers, a finding which adds weight to concerns expressed in the literature about insufficient monitoring of investment managers (Wood, 2003).

We noted several potential tensions between the aims of the charities and their investments. For example, one charity tried to address alcohol addiction but did not exclude alcohol companies from investments and raised funds from wine retailers. Other charities had ethical policies with exclusionary criteria, but invested in hedge funds which did not apply these criteria. We also found evidence of charities with ethical policies that were not implemented in many countries.

Three distinct practical problems were encountered by those charities which did attempt to implement an ethical policy – problematic corporate activity, lack of ethical product availability/information and the growth of charity investment in hedge funds. As a consequence, implementation was, in practice, often partial. This meant that the degree of values alignment at the operational level was often significantly lower than that espoused at the policy level.

Based on the case for better alignment between charities' aims and their investment practices and our findings, this study makes four recommendations for large charities:

1. Charities without an ethical investment policy should develop one.
2. Charities currently with a policy should review it and make revisions to reduce any conflicts between their charitable aims and investments.
3. Once a policy is in place, it should be monitored and its implementation disclosed.
4. Charities with shares should vote their shares and engage with companies on ethical issues.

A potential limitation of this study is that the revised SORP (Charity Commission, 2005) came into force after we had conducted our research and this regulation will affect the disclosure of ethical investment policies, with disclosure increasing. However the findings do offer a benchmark against which regulatory impact can be evaluated. Further research is required in relation to smaller charities, as the focus of the study was large charities with investments and the findings cannot be generalised to all British charities.[19] We also recommend charity investment disclosure and further inter-country comparisons as areas for future research.

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Endnotes

[1] As governments increasingly look beyond the two-sector model of state and market, the significance of the voluntary third sector is growing, with charities representing the largest section of this sector. The UK operates three separate charity law regimes, each with their own legislation and administrative systems. In England and Wales, there is a long-established charity commission and compulsory register of charities. A similar system has been operating in Scotland for several years while Northern Ireland is only just introducing these systems (Charities Act (Northern Ireland) 2008). The number of registered charities in England and Wales stood at 169,299 by the end of 2007 (Charity Commission, 2008), while there were an additional 23,500 charities in Scotland in 2008 (OSCR, 2008).

[2] The Charity Commission stated in May 2005 that 11% of the top 100 charities and 25% of all charities failed to file their accounts in time (www.cfdg.org.uk/newsarchive.asp). Poor accountability has led to scandals such as Breast Cancer Research (Scotland) that raised £13.2m and passed on only £1.5m to charitable causes, while Moonbeams passed on only £71,000 of £3m raised (Buxton, 2005).

[3] We provide a discussion of stakeholders within the charity accountability literature in section 2.3.

[4] Ethical Investment Research Service (EIRiS) is a leading organisation in research into matters of ethics and investment. Many charities are EIRiS clients. See EIRiS website www.EIRiS.org.uk for definition of ethical investment. For further coverage of ethics and investment see: Boatright (1999); Dobson (1993) and Sparkes (2002).

[5] The terms ‘aim’ and ‘purpose’ are used interchangeably in guidance to the Charities Act (2006); in the present paper we also use the term ‘motive’ (Charity Commission and Cabinet Office, 2007).

[6] In recent years, there has been a call for more evidence-based policymaking (for example, in the area of financial reporting: Fearnley and Beattie, 2004; Buijink, 2006; ICAEW, 2006). The evidence in this study can contribute to the development of policy in relation to charity ethical investment and related disclosures.

[7] Engagement with company management often includes discussion of environmental and social management and reporting or company views of specific controversial issues.

[8] The literature also contains evidence that charities can become self-serving organisations characterised by high managerial salaries and administrative costs (Ebrahim 2003a).

[9] It should be noted that there are some detractors from the notion of triangulation as a validation technique. For example, Tomkins and Groves (1983) and Ahrens and Chapman (2006) argue that meanings are not stable and objective.

[10] On the request of one interviewee the interview was not recorded, 11 interviews were tape-recorded.

[11] Some charities employed several of these ethical screens.

[12] 55 respondents had an ethical policy. In addition some charities developing an ethical policy answered these questions.

[13] Only charities with an ethical policy answered this question, hence only 44 responses to this question.

[14] The average score for harmony between aims and investments was 1.3, while average score for protecting the reputation was 1.98 (1 being very important and 2 being important, see note to Table 6).

[15] X substituted for the name of the society in order to preserve the anonymity of this charity.

[16] The interviewee is incorrect in his statement about no ethical investment opportunities within corporate bonds, property and hedge funds. There are ethical bond funds, for example Sarasin ‘Sustainable Bonds Euro’. Morley offers ‘The Morley SRI Long Short Fund’. This is an SRI hedge fund. There is also a company called ‘Ethical Property Company’, which offers investment opportunities in ‘ethical property’.

[17] Members are a specific stakeholder group. For example, the Royal Society for the Protection of Birds have more than one million members.

[18] We analysed annual reports from 122 charities, most of these provided no disclosures about ethical investment (including some charities that had indicated in our questionnaire that they had a policy).

[19] Our sample did not cover Northern Irish charities. The findings are mainly based on data from large charities in England and Wales (some of these charities are also active in Scotland).

Table 1 Background Characteristics of Interviewees

Organisation	Sector[1]	Size: investments [1]	Title of interviewee
Charity 1	Social services	£273m	Head of Finance
Charity 2	International activities	£43m[2]	Head of Auditing
Charity 3	International activities	£108m	Executive Secretary of Finance
Charity 4	Social services	£149m	Trustee
Fund Manager 1	Fin. institution	£5000m	SRI analyst
Charity 5	Medical	£69m	Director of Finance
Charity 6	Medical	Confidential	Head of Equities
Charity 7	Culture, sport & recreation	0.5m	Head of Finance
Charity 8	Philanthropic intermediation	118m	Director of Finance
Charity 9	Conservation	14m	Cash & Investment Manager
Charity 10	Social services	14m	Director of Finance
Charity 11	Philanthropic intermediation	£210m	Director of Finance

Notes: 1. Source for sector and size figures (Caritas, 2006).

2. Connected charities had a further £183 million in investments.

Table 2 Existence of Ethical Policy within Sub-samples

Existence of written ethical policy	% of charities with ethical policy	% of charities with ethical policy	χ^2 (Prob.)
Size of charity*	Large 72	Small 41	7.3 (0.007)
Type of charity	Fundraiser 72	Grantmaker 50	4.4 (0.036)
Sector of charity	Religious 82	Non-religious 50	24.0 (0.000)

* Charities whose size of investments was in the top (bottom) quartile were defined as large (small).

Table 3 Nature of Ethical Investment Policy

Ethical policy approach	No.of charities	%
Negative screening	44	50.0
Positive screening	15	17.0
Indirect dialogue	24	27.3
Direct dialogue	5	5.7
Voting of shares	8	9.1

Note to table: Does not sum to 100% as multiple approaches usual. The percentages are based on 88 responses.

Table 4 Ethical Screens Employed by Charities

Negative screen	No.of charities	%
Tobacco	35	39.8
Weapons	28	31.8
Pornography	24	27.3
Gambling	16	18.2
Alcohol	13	14.8
Oppressive regimes	11	12.5
Environmental damage	7	8.0
Climate change	3	3.4
Other	13	14.8

Note to table: Does not sum to 100% as multiple screens common. The percentages are based on 88 responses.

Table 5: Approaches to Monitoring of Ethical Policy

Approach to monitoring	**No.of charities**	**%**
Regular reports to trustees	27	30.7
Part of performance reported to charity	22	25.0
EIRiS	6	6.8
Annual review by trustees	5	5.7
Report for new mandates	2	2.3
Occasional reports to trustees	1	1.1
Other	7	8.0
At least one approach used	*47*	*53.4*
Ethical policy not monitored	*10*	*11.4*
No ethical policy to monitor	*33*	*37.5*

Note to table: Does not sum to 100% as multiple approaches possible. The percentages are based on 88 responses. Two charities had no ethical policy (according to the survey respondent), but avoided tobacco companies and monitored this, hence the last three lines add up to 102%.

Table 6: Issues in the Ethical Investment Policy (n = 53)

Issue	**Mean Response**[1]	**Std. Dev.**
Avoidance of conflict with the aims of the charity	1.5	0.9
Maximisation of investment return	1.7	0.9
Avoidance of investments widely considered inappropriate on moral grounds	2.4	1.3
Avoidance of investments that might alienate supporters	2.7	1.4
Avoidance of investments that might make potential beneficiaries unwilling to be helped	3.1	1.3
Engagement with company management on ethical issues	3.3	1.0
Voting the shares on ethical issues	3.3	1.1

Note 1: Response scale: 1 = ‘very important’, 2 = ‘important’, 3 = ‘fairly important’, 4 ‘of little importance’ and 5 = ‘not important at all’; a lower number thus indicates a more important issue for the charity.