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Charity Ethical Investment: Policy, Practice and Disclosure

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Executive Summary

This paper investigates the ethical investment policies of leading UK charities. It is estimated that UK charities in 2004 had £79 billion in assets of which £44 billion were invested (NCVO, 2006), with further growth in both influence and size predicted (SustainAbility, 2003). Yet we know of no published academic research in the UK or Norway which focuses on charity ethical investment.

Using various methods, we have investigated charity ethical investment policies and how these policies relate to the aims of charitable organisations. First, we survey 197 large UK charities using a postal questionnaire. Second, we conduct interviews with finance directors of charities within our survey sample. Third, we conduct a preliminary investigation of ethical investment disclosures by Norwegian charities. The findings indicate that many charities do publish an ethical investment policy, but this is in many cases limited to screening out tobacco and weapons companies. Interviews revealed that charity investment policies often were more extensive than the abbreviated policies disclosed in the annual report. The implementation of the policy differed substantially from one charity to another charity. Only a few charities engage with companies directly and vote their shares on ethical matters as part of their investment policy. Investment disclosures by Norwegian charities tend to be more limited than disclosures by UK charities. We conclude with four clear policy recommendations for charities.

We recommend that charities:

1. Consider different ethical investment strategies (engagement and voting)
2. Closely monitor the fund managers and change them if necessary
3. Disclose clearly how resources are used
4. Adopt an appropriate ethical investment policy.

Key words: accountability, charity, non-governmental organisation, voluntary organisation, ethical investment, socially responsible investment.

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1. Introduction

The voluntary third sector (of which the charity sector is the largest element) is growing in significance as governments and communities look beyond the two-sector model of state and market. Although the boundaries of the sector are not clear, it has been estimated that the broadly-defined UK non-profit sector expended £47.1 billion in 1995, representing 6.6% of GDP (rising to 9.2% if adjusted for the value of volunteer hours) (Kendall, 2003).¹ Not surprisingly, this growth, together with well-publicised scandals, has led to increasing concerns about the accountability of charities.² The monitoring incentives of key stakeholder groups (i.e. beneficiaries and donors) are much weaker than in the case of for-profit organisations, where investors have direct economic incentives to assure themselves of good stewardship and management.

This paper investigates the ethical investment policies of leading UK charities. It is estimated that UK charities in 2004 had £79 billion in assets of which £44 billion were invested (NCVO, 2006), with further growth in both influence and size predicted (SustainAbility, 2003). It is harder to obtain overall figures for Norway, but Kullman-Five (2007) estimates that there were about 6000 active foundations in Norway in 2007. In addition Sivesind (2007) reports that there were 112000 other “voluntary organisations” in Norway. This includes 37000 organisations that may not meet the UK charity definition. The “comparable” number of voluntary organisations in Norway would then be around 81000. The number of charities in Norway is high in comparison with Scotland which had 16000 charities according to OSCR (2005). However, the number of organisations is only one measure, other indicators include the level of volunteering and membership in voluntary associations. With these measures Norway is above the EU average according to Sivesind *et al.* (2002) and Sivesind (2007). Some of the Norwegian charities have invested funds, indeed 20 large Norwegian charities had investments of more than NOK 7.4 billion in 2005 (£0.7 billion). Norwegian charities could be more empowered to invest ethically than charities in other countries because the government pension fund has operated with a high profile ethical investment policy

¹ This definition includes political parties and religious congregations.

² For example, Breast Cancer Research (Scotland) was found to have raised £13.2m and passed on only £1.5m to charitable causes, while Moonbeams passed on only £71,000 of £3m raised (Buxton, 2005). In Norway leaders of LHL were accused of economic irregularities (Moe & Stenseng, 2007).

since 2004 (Appendix 4 and Landler, 2007). It is therefore of interest to investigate to what extent Norwegian charities have adopted ethical investment policies. This paper is the first study of ethical investment by charities in Norway.

A 2001 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. Yet we know of no published academic research in the UK or Norway which focuses specifically on charity ethical investment. We investigate charity ethical investment policies and how these policies relate to the aims of charitable organisations.

The Charity Commission (2003) provides the following definition of an ethical investment policy:

‘An ethical investment policy may involve looking for companies which demonstrate best practice in areas like environmental protection, employment and human rights, or for companies whose businesses contribute directly to a cleaner environment or healthier society. Or it may involve negative screening, to avoid investments in a particular business or sector. Many ethical investors and ethical investment funds adopt a combination of positive and negative criteria.’

This paper adopts the above definition which emphasises the use of positive or negative ethical criteria or screens. We note in addition that an ethical investment policy may include engagement with company management on ethical issues and voting on such issues (Kreander, 2001; Green, 2003).³

The way in which charity funds are invested is an important aspect of the accountability of charities towards their members and donors. The Charity Commission stated in 1987 that “the trustees should not invest in companies pursuing activities which are directly contrary to the purpose of the trust or the charity” (Sparkes, 1995). In the context of charity investment, there is a risk that shareholdings in corporations which the public would view as being in conflict with the objective of a charity could alienate donors. Without an explicit ethical investment policy, there is a risk of tension between the expectations of donors, investment managers and charity staff. Indeed, the Charity Commission (2003)

³ The most common screen among the charities in Green (2003) was avoidance of tobacco manufacturers. Engagement with company management often includes discussion of environmental and social management and reporting or company views of specific controversial issues.

recommended that charities disclose any policy on ethical investment, saying that ‘it would be good practice to include such information in the charity’s annual report’. New accounting regulations for UK charities (Charity Commission, 2005) require large charities to disclose their investment policy including whether if social, environmental or ethical considerations are taken into account. One commentator argued that charities should take charge of their investments and ensure that fund managers implement the ethical policy the charity has chosen (Essex, 2005). Concern about the accountability of charities has been raised by Harrow *et al.* (1999), Kovach *et al.* (2003) and Lloyd *et al.* (2008). This paper investigates the nature of UK charities ethical investment and how charities operationalise ethical investment. Specifically, the aims of the study are to:

1. Provide evidence on the ethical investment policies of leading UK charities; and
2. Examine how charities monitor their ethical investments.
3. Evaluate ethical investment disclosures by some Norwegian charities (preliminary).

We present survey and interview evidence on the first two aims. The third aim is addressed through studying charity annual report disclosures in Norway. We note that this paper is neither about the financial sophistication of charities per se nor about charity governance and strategy in general. The former issue has been addressed in (JP Morgan 2003, 2008) and the latter by Carlenius and Fagerli (2005), Stiftelsesforeningen (2007) and Heitmann and Selle (1999).

The remainder of this paper is organised as follows. The next section reviews selected literature on charities and ethical investment and on the accountability of non-profit organisations. Research methods are outlined in section three. Descriptive results from the questionnaire are presented in section four. Section five presents selected interview findings which assist in interpreting the questionnaire results. Section six presents preliminary results from Norway, while section seven offers a number of conclusions.

2. Literature Review

This section of the paper explores selected prior literature relevant to our investigation. We recognise that whilst our paper has a UK focus, supplemented by data for Norway, the issues addressed are essentially global in nature. For example, Kovach *et al.* (2003) and Lloyd *et al.* (2008) studied the accountability of global organisations including some of the charities in our sample. They concluded that there were gaps in accountability for all of the organisations in their sample. Another recent study predicted increased influence but also increased competition and co-operation among the not-for-profit sector (SustainAbility, 2003). The competition for funds puts pressure on charities to be accountable and transparent; donors must be persuaded that they are good investments. One aspect of this is how they invest and handle their own funds.

There are three strands to the literature review. We will first consider charities and accountability, focusing on a stakeholder model of accountability. Second, we also briefly outline recent regulation that affects these issues for UK charities. Third, we present findings from previous studies on charities and ethical investments.

2.1 Charity Accountability

This section explores accountability in relation to charities. The funding structure of charities, the implicit contracts upon which they operate and the nature of the work they do, means that accountability within the charity sector both in concept and in practice is fundamentally different from corporate accountability.

While the reasons for the growth of the charity sector are undoubtedly complex, many commentators suggest that it reflects a significant shift in political and economic ideology, particularly in relation to development policy. This new approach involves channelling government aid through charities and NGO's. For example, the percentage of total aid from OECD countries, directed through NGO's, increased from 0.7% in 1975 to 5% by 1995. Robinson (1993) concludes that these changes constitute a 'New Policy Agenda,' an agenda that is firmly grounded in neo-liberal economic and political ideology (Edwards and Hulme,

2002). This new agenda does not just affect charity funding, it also impacts on the types of programmes that charities develop and subsequently how they discharge their accountability. It is of note that the UK government has superseded the public as the largest donor to charities (Guardian, 2004). Interestingly, charities in Norway receive less public funding than their EU and UK counterparts and rely more on fees and charges (Sivesind *et al.*, 2002; Sivesind, 2007).

Despite the growing level of public and private funds involved, new recommendations regarding how these funds can and cannot be invested⁴ and the fact that the burgeoning charity and NGO sector does represent a major change in the political economic landscape of the 21st century. It is noteworthy that the accountability of charities has received little attention, at least within the accounting literature⁵. This gap in the literature does not reflect the growing public and political concern over the lack of accountability amongst charities. Lehman (1990) comments that the lack of NGO accountability is 'extraordinary' and Edwards and Hulme (2002) comment that 'we can find no evidence that the contemporary accountability of NGOs is satisfactory'. This sentiment is reflected in the press, where there is concern over corruption and lack of accountability in NGOs (Butler, 2002). In Norway Carlenius and Fagerli (2005) provide several examples of problems with accountability and governance in Norwegian charities. Accounting and accountability are therefore key issues for charities and NGOs if they are to maintain their legitimacy (Edwards and Hulme, 2002). In order to explore the complexity of charity accountability, we delineate two prominent models of accountability within the literature: the agency perspective and the stakeholder perspective, focusing on the latter.

The agency model

The agency model of accountability is ubiquitous within the literature. This model has three salient characteristics in relation to the discussion of charity

⁴ The Charity Commission has recently published revised guidance for charities, The Statement of Recommended Practice 2005 outlining recommendations in relation to the ethical investment of charity funds. The new SORP came into practice on 1st April 2005 (Charity Commission, 2005).

⁵ An exception is the Accounting Auditing & Accountability Journal special issue on NGO accounting and accountability in 2006.

accountability. First, it is rights based, second, it is legally enforced and, third, there are clear, or at least well established, performance indicators. The accountability relationship is based on a specific kind of transaction. The principal purchases a stake in the entity that, in turn, entitles them to certain rights: property rights. The agent subsequently has a fiduciary responsibility to provide an account to the owners. There is a clear line of accountability and it is legally enforced. Finally, there are clear, well-established indicators that can be used to convey the extent to which the agents have discharged their responsibilities, for example the profit figure or the return on capital employed.

The stakeholder model

More recently, stakeholder models have extended the scope of organisational accountability in a number of ways. In terms of rights, proponents of the stakeholder model suggest that anyone affected by the management's actions, not just owners, have a legitimate stake in the organisation and therefore a right to receive an account. The number of groups who have a right to receive information is thus extended to include, for example, customers, suppliers, employees and the general public. Each of these groups might be seen to have contracted with the organisation in a different way; however, apart from consumer and employment rights these contracts are often abstract, informal and not easily enforceable within the current regulatory environment. There are, nonetheless, quite clear indicators that can be used to give an indication of the level of performance in relation to these responsibilities (such as, in relation to environmental performance or health and safety statistics). Stakeholder models also allow for different modes of rendering or compiling an account, for example stakeholder dialogues.

Charity accountability however, does not fit neatly into either of these models. Charities and NGOs have multiple and complex accountabilities. First, they have a 'downward' accountability to their beneficiaries and, second, they have an 'upward' accountability to their trustees, and donors. While charities and NGOs have a responsibility to their trustees, accountability to both beneficiaries and donors is based on informal duties that primarily arise from the role they perform in society and the legitimacy of that role (Edwards and Hulme, 2002). Chryssides and Kaler (1996) thus distinguish between duties that are based on *rights* and those based

more loosely on *roles*. However, the nature of this informal, role based, moral accountability seems to be challenged as calls are made for more formal transparency. The different types of organisations that compose the charity sector further complicate the nature of charity accountability. The accountability relationships of grant-making charities, whose income comes largely from investments, is quite different from those fund raising charities whose income comes primarily from public donations, and this in turn differs from those primarily funded through government grants. Many grantmaking charities have a historical accountability to the ideal(s) of the original benefactor and other faith-based charities also have some form of accountability towards a set of theological principles.

Charity accountability differs substantially from business accountability primarily because it is based on a fundamentally different type of financing. Where the accountability of commercial organisations is founded on the legal purchase of a stake in the firm, charities are based on the notion of the gift. This is true of a charity's relationship with its donors and its beneficiaries. On the one hand, a donor gives to the charity, and on the other, the charity administers aid to its beneficiaries. It is difficult to conceptualise this relationship, even through the stakeholder model, because a gift does not traditionally carry with it the idea of formal, reciprocal responsibilities. The idea of public accountability normally is associated with the power (normally external) to hold to account. The power to account to beneficiaries at least, may, in part, be imposed by the charities upon themselves. While it might be instructive to conceptualise charity reporting to beneficiaries as a symbolic gesture of goodwill which emerges from a relationship based on trust and commitment rather than legal rights, a corresponding gift of an account, the historical nature of charity reporting to donors is probably considerably more complex. The fact is that little is known about NGO accountability in general.

This relationship between charities and donors is changing quite dramatically. We can identify two issues arising from these changes. The first issue relates to comments made in the introduction to this section and the fact that an increasing proportion of charity funding is now coming directly from governments. This is quite different from individual donations as the government is channelling public

money through charities. This shifts charity accountability more towards an agency model. Laying aside the danger that charities might be co-opted by government agendas, this official funding might result in a reorientation in charity accountability. Given the level of government funding that is associated with the New Policy Agenda, there is a concern that accountability will be reoriented upwards away from beneficiaries and towards government targets. The second issue is the concern that this shift in funding may deter charities from speaking out on certain political issues. This characteristic of charity (and NGO) funding may be important for understanding their reluctance to become involved in policy debates, lobbying and perhaps also shareholder activism. As NGOs are increasingly employed for economic and political ends, there is a corresponding increase in the requirement for public accountability.

There also seems to be a hint of a change in the nature of public giving. The emergence of charity information resources, for example Guidestar⁶, is not dissimilar to the emergence of organisations that provide information on the social and environmental performance of corporations, such as the Ethical Investment Research Service, EIRIS.

Holding charities to account however, is also problematic due to the difficulty in identifying key performance measurements. Measures of charity and NGO performance might focus either on the efficiency or the effectiveness with which resources are used. Each charity has a different set of objectives, whether helping cancer sufferers, protecting wildlife or promoting the rights of refugees. It would make little sense to compare all aspects of the performance of Marie Curie Cancer Care and The Royal Society for the Protection of Birds.

Edwards and Hulme (2002) comment that ‘there are few agreed on performance standards available to NGOs, there is no obvious bottom line. While there may be some measures of project success these don’t easily translate into measures of the organisations’ success’. Also, from the critical literature we might be wary of attempts to simply measure performance. In terms of charities goals there are

⁶ <http://www.guidestar.org/>

difficulties in achieving both economic and political objectives. For example, increasing the volume of service provision might adversely affect some charities political objectives' of participation and democratisation. Edwards and Hulme (2002) conclude that measures of performance should be negotiated among stakeholders. However, the potential conflict between headline government targets and the needs of beneficiaries may not often be easily negotiated. The concern is that while the increasing size and complexity of some charities and NGO's leaves them open to corruption, the imposition of traditional, commercial notions of accountability may, similarly, adversely affect the charities' ability to function effectively. In a Norwegian context Heitmann and Selle (1999) note the importance of the voluntary nature of charities and they argue that a charity which moves too much towards a market based approach whilst decreasing the voluntary aspect risks making itself irrelevant.

2.2 Regulation

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

In recent years, UK regulators have sought to improve the quality of charity reporting, through successive revisions of the charity Statement of Recommended Practice (SORP). This SORP has become almost a statutory code through the regulatory policy of the Charity Commission (Pianca and Dawes, 2004). The current SORP was issued by the Charities Commission in 2005. It is now recommended that charities disclose in their annual reports whether or not they have an ethical investment policy. This latest SORP applies to accounting periods beginning after April 2005 (www.charity-commission.gov.uk). The SORP recommendations are additional to the requirements of the Companies Act 1985,

the Charities Act 1993 and Financial Reporting Standards issued by the Accounting Standards Board.

2.3 Prior Empirical Research

Ethical investment

The criteria and operations of retail ethical investment funds have been studied extensively in the UK (Harte *et al.*, 1991; Perks *et al.*, 1992; Friedman and Miles, 2001; Kreander 2001; Miles *et al.*, 2002). For a Norwegian perspective on ethical funds, see Udgaard (2006). Ethical investments by churches have also received some attention (Kreander *et al.*, 2004; Sparkes, 1995).

Charities, however, despite having far larger ethical investments than the retail funds and having a far longer history of ethical investment, have not been studied in the accounting literature.⁷ We consider three prior surveys of UK charity ethical investment conducted by professional organisations (EIRiS, 2001; CCLA, 2004; Green, 2003) and two North American studies (Plant, 2003; Guay *et al.* 2004).

EIRiS is a professional research organisation which offers specialist ethical investment advice. EIRiS clients in Norway include the Government Pension Fund and the charity Freedom of Expression Foundation (Fritt Ord). In 2001 EIRiS surveyed the top 100 UK charities by income. Of the 47 respondents to the survey 25 (53%) had an ethical investment policy. In some cases the ethical policy was limited to screening out tobacco firms. Seven respondents (15%) had extensive positive and negative ethical criteria and six charities (13%) engaged with companies on ethical issues (EIRiS, 2001).

One of the largest charity fund managers in the UK is CCLA. Thousands of charities invest in their responsible charity fund. In 2003 CCLA sent a short survey about ethical investment to the trustees of selected clients. In total 686 charities responded to the survey. Armaments was the most important ethical screen, followed by tobacco. The majority of respondents supported voting on ethical issues. Engagement with company management also received strong support. This

⁷ The first UK ethical retail fund was launched in 1984, while one of our sample charities has operated an ethical investment policy since 1932.

survey raised concerns about the knowledge level of trustees as most of them knew neither that the fund their charity invested in had ethical screens nor how their shares were voted. It may be challenging for a charity to be accountable to donors when their trustees do not know how their money is invested.

The Green (2003) paper is important for this study as it is the only previous UK study which employs interviews and a questionnaire to study charity ethical investment. Green (2003) 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 the children's charity Barnado's with negative screens relating to child exploitation, pornography and powdered milk producers in addition to those above. The present study extends the work of Green (2003) by surveying a larger sample. In addition we include accountability and disclosure issues not addressed by Green (2003) and also consider two countries in our analysis.

In a Canadian context, Plant (2003) conducted in depth interviews of 14 large charities. Five of these charities employed ethical screens, but only one voted its shares on ethical issues. The two main barriers to ethical investment were time involved for charity staff and attitude of fund managers. The author argue that charities could achieve far more by adopting ethical investment practices. Similarly Guay *et al.* (2004) cite some examples where charities together with financial institutions have achieved positive change. They also note that both in Scandinavia and the US there is more co-operation between charities and financial institutions. Banco (Amnesty, others) from Sweden and Storebrand (Red Cross) in Norway are mentioned as examples.

We will briefly consider the issue of financial performance and ethical investment in the empirical part of the paper in conjunction with the interview evidence. The next section outlines the methods used for the empirical work in this paper.

3. Methods

3.1 Sample Selection

This study focuses on large UK charities. Three distinct measures of size were identified as being of relevance to the present study: 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 in the present study). We identified the top 120 charities based on each of these three criteria from the *Top 3000 Charities 2004/05* publication (Caritas, 2004). 20 charities with no investments were eliminated from the sample. This process resulted in a total pool of 197 distinct charities, as many met more than one of the three criteria. These 197 charities represented investments of more than £30 billion, they had funds amounting to £36.5 billion and they had an income of around £8.8 billion. Of these 197 charities 117 were grant making charities. In Norway we focus on a small sample of large charities.

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, comprising 16 questions, asked about the existence and nature of the charity's ethical investment policy. Section B, comprising eight questions, covered implementation, monitoring and reporting. Section C (three questions) 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. Other academics also provided feedback on the pilot questionnaire. All questionnaires were accompanied by an explanatory letter which explained the background of the research, gave an assurance of confidentiality of responses and offered the following definition of the term 'ethical' (or socially responsible) investment: 'investment which uses positive

and/or negative ethical criteria in security selection'.⁸ 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 was enclosed. All questionnaires were serially numbered to allow non-respondents to be followed up, with a second mailing of the complete research package being sent out in January 2005. We tested for non-response bias by analysing whether there was a difference in responses to questions between the first and the second mailing for the numerical questions. The results are reported in Table 1 below. They indicate that there was no significant difference between early and late respondents. We used the Levene Test for equality of variances and the Non-parametric Wilcoxon Test. There was no significant difference for any of the questions with either test. Indeed in most cases the mean answer and its standard deviation were fairly close between the first and second mailout.

Table 1 Test for Non-Response Bias

Question	Mailing	n	n of total	mean	SD	Wilcoxon	Levene
						p-value	p-value
B6	1	50	78 %	3.08	1.34		
	2	11	50 %	3.18	1.08	0.32	0.13
C1a	1	56	88 %	2.82	1.13	0.35	0.3
B	1	56	88 %	3.05	1.02	0.13	1
C	1	58	91 %	3.55	1.08	0.8	0.57
C1a	2	16	73 %	2.81	0.91		
B	2	17	77 %	3.41	0.94		
C	2	18	82 %	3.11	1.37		
C2a	1	55	86 %	2.82	1.06	0.14	0.38
B	1	55	86 %	3.27	0.95	0.24	0.98
C	1	54	84 %	3.7	1.02	0.08	0.9
C2a	2	16	73 %	3.06	0.93		
B	2	17	77 %	3.47	0.94		
C	2	17	77 %	3.24	1.15		

The first column refers to the question number. The second column provides the number of the mailing, while the third column discloses the number of responses to the question. The fourth column provides the response rate given that 64 and 22 charities responded to the first and second mailings. Column five and six report the mean and standard deviation of the responses. The last two columns provide the p-values of the non-parametric Wilcoxon Test and the Levene Test of equality of variance. None of the values are significant at the five percent level.

⁸ Reference was made to the definition on p.2 of this paper and we mentioned that engagement with management on ethical issues can be part of an ethical investment policy.

3.3 Interviews

Interviews were conducted with twelve charities within the sample of the 197 charities above in order to achieve improved internal validity of findings through triangulation (Jick, 1979; Yin, 1994). To achieve triangulation questionnaire responses were compared with interview transcripts and annual report disclosures. This process resulted in greater insights than any of those data sources provided alone. The interview sample covered a wide range of charity sectors and charities of different sizes. Interviews were semi-structured, covering 16 broad issues. The interviews typically lasted approximately one hour. All interviews were tape recorded and fully transcribed. Notes were taken at each interview and a write up was made 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 staff for charities 1-3 and 5-11 (see Table 2 below). The trustee for charity 4 was an investment professional who had been a trustee for more than 30 years for charity 4. 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 2 Background Characteristics of Interviewees

Organisation	Sector ¹	Size: investments ¹	Title of interviewee	Code
Charity 1	Social Services	£240m	Head of Finance	FinDir 1
Charity 2	International activities	£23m ²	Head of Auditing	Haud 1
Charity 3	International activities	£122m	Executive Secretary of Finance	FinSec
Charity 4	Social Services	£113m	Trustee	Trustee 1
Fund Manager 1	Fin. Institution	£5000m	SRI analyst	Fund Man 1
Charity 5	Medical	£69m	Director of Finance	FinDir 2
Charity 6	Medical	£12000m	Head of Equities	HoE
Charity 7	Culture, Sport & recreation	£0.6m	Head of Finance	FinDir 3
Charity 8	Philanthropic intermediation	£122m	Director of Finance	FinDir 4
Charity 9	Conservation	£11m	Cash & Investment Manager	CIM
Charity 10	Social Services	£9.6m	Director of Finance	FinDir 5
Charity 11	Philanthropic intermediation	£195m	Director of Finance	FinDir 6

Notes: 1. Size in million GBP. Source for sector and size figures (Caritas, 2004).

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

4. Questionnaire Results

This section of the paper presents the findings from the postal questionnaire to the sample of 197 UK charities. We obtained a total of 101 responses, of which 16 were not usable for various reasons,⁹ leaving 85 usable responses a response rate of 43%. Additionally, two sample charities wrote to us and answered some of the questions in their letters¹⁰. Several other charities also provided some information of interest in their “not usable” responses. We present the findings as they relate to the main sections of the questionnaire. The first section asked about the ethical investment policy. The second section asked how investment performance and any ethical policy were monitored. The third section explored disclosure and financial performance issues.

4.1 Existence and Nature of the Ethical Investment Policy

Our results indicate a relationship between size and existence of an ethical policy; charities with an ethical policy tend to be larger charities. This size difference was significant at the 10% level with the Mann Whitney U Test. Only four of the responding charities (5%) had sought the views of beneficiaries or donors on their investment policies. Of the 85 respondents, 48 (56%) had a formal written ethical investment policy. Green (2003) reported that 40% of respondents had a written ethical policy, however he noted that a third of the charities with no written policy were considering implementing a policy in the next 12 months. Our findings suggest that at least three charities did implement a policy within the year. One third of the charities had an unpublished written policy, conversely 32 charities had published their ethical investment policy. A further seven charities had an informal ethical investment policy. Thus, the majority of the respondents (55 of 85) had some kind of an ethical policy,¹¹ as shown in Figure 1.

⁹ Typically a policy of not filling in questionnaires was cited, or the questionnaire was returned blank.

¹⁰ Their answers are used in the analysis where relevant.

¹¹ This figure is lower for our entire sample, and lower still for the UK charity universe.

Figure 1 Existence of an Ethical Investment Policy

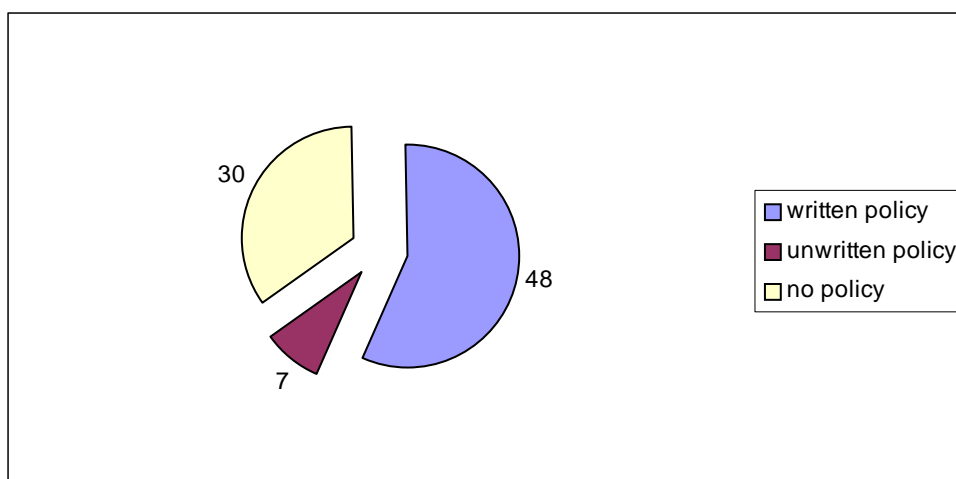


Table 3 reports the importance of various factors for the ethical investment policy for the 53 charities which answered this question shown in descending order of importance. This question explored determinants of the content of the ethical investment policy. The most important factor was avoidance of conflict with the aim of the charity whilst the least important factors were engagement with company management and voting of shares on ethical issues.

Table 3 Factors in the Ethical Investment Policy

Heading	Mean Response ¹	St.Dev
Avoidance of conflict with the aims of the charity	1.5	1.0
Maximising investment return	1.7	1.1
Avoidance of investments widely considered inappropriate on moral grounds	2.4	1.6
Avoidance of investments that might alienate supporters	2.7	1.8
Avoidance of investments that might make potential beneficiaries unwilling to be helped	3.1	1.9
Engaging with company management on ethical issues	3.3	1.9
Voting the shares on ethical issues	3.3	1.9

Note 1: Response scale: 1 = 'very important' to 5 = 'not important at all'.
A lower number thus indicates a more important issue for the charity.

Figure 2 demonstrates the nature of the ethical investment policy by the responding charities. By far the most common approach is avoidance of certain industries, ie negative screening. This approach was taken by 44 charities. Positive ethical screens, such as best in sector environmentally, were employed by 15 charities. The

least common approach was direct dialogue with company management on ethical issues (5 charities). The indirect dialogue approach meant that the fund managers engaged with the companies owned by the charity rather than the charity itself.¹² This was the second most common way of putting an ethical investment policy into practice, through ‘voice’ rather than exit.

Figure 2 The Nature of the Ethical Investment Policy

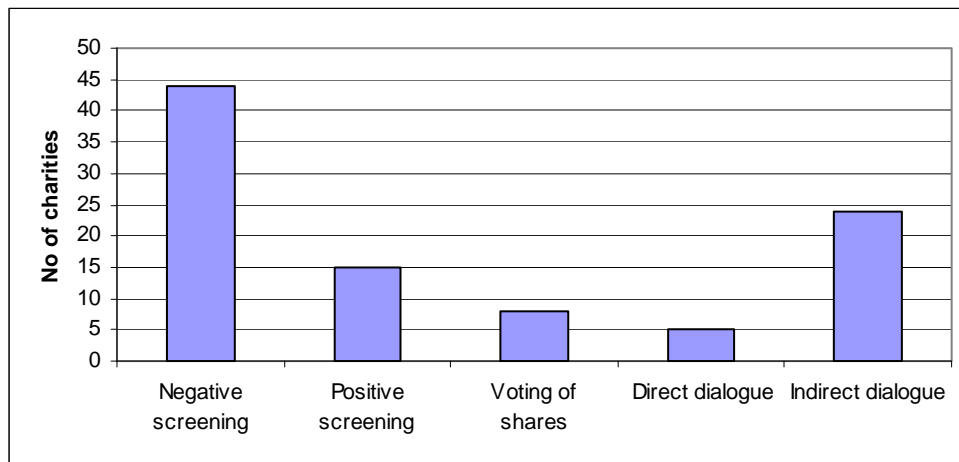
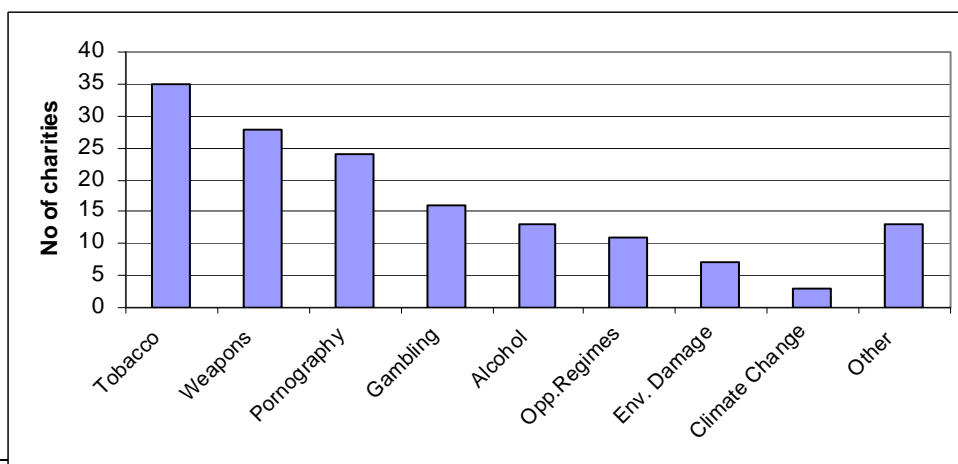


Figure 3 shows the number of responding charities employing various ethical screens. The most common screen was tobacco (35 charities), followed by weapons (28 charities) and pornography (24 charities). Less common screens were environmental damage (7 charities) and climate change (3 charities). The ‘other’ category included screens such as animal testing and ‘sanctity of life’ employed by a few charities.¹³

Figure 3 Ethical Screens Employed by Sample Charities



¹² Eight charities voted their shares on ethical issues. A few charities employed several of these complementary methods.

¹³ Some charities employed several of these ethical screens.

In addition to investigating the chosen type of ethical policy we also wanted to know what caused charities to develop such policies. The most important factors causing charities to develop an ethical investment policy according to the respondents are shown in Table 4. The most important category was “other”. Reasons specified here related to ethical values. Several respondents linked this to the aims/objectives of the charity. One charity specified “church teaching”, whilst another religious charity specified “belief of the sisters”. The wishes of the founder was also mentioned as a reason for developing an ethical policy.

Risk to the reputation of the charity was another major factor underlying ethical investment policies. Expectations that charities relate to their broader role in society also seemed to be a driver for developing ethical investment policies. Pressure from other charities and donors seemed to be insignificant as a driver for ethical investment policies within our sample.

Table 4 Factors causing the charity to develop an ethical investment policy

Factor	Mean Response^{1,2}	St.Dev
Other (<i>please specify</i>)	1.2	0.8
Reputational risk	1.9	1.3
Charity’s wider role in society	2.0	1.2
Staff morale	2.7	1.6
Pressure from donors	3.6	2.0
Peer pressure from other charities	3.7	2.1

Note 1: Response Scale: 1 = ‘very important’ and 5 = ‘not important at all’.

2. n = 44

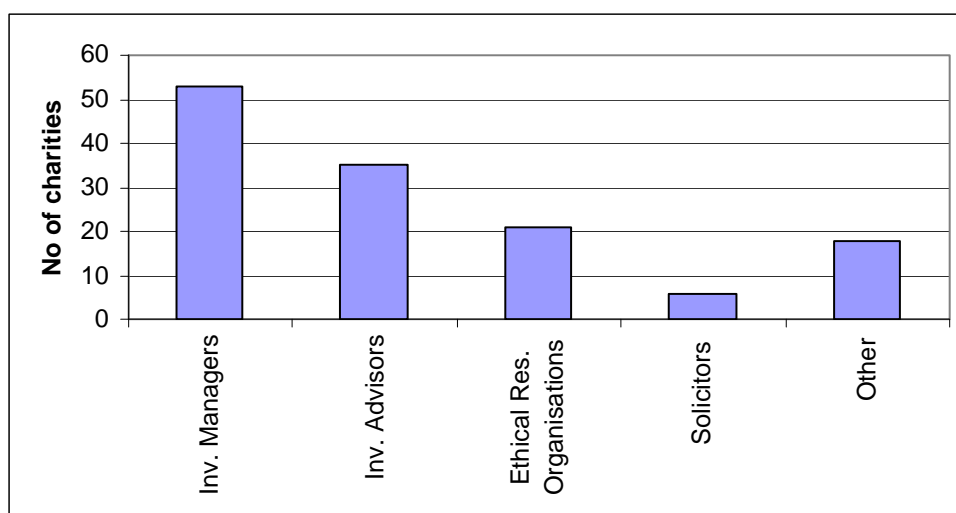
In most cases the ethical investment criteria were set by the trustees (49 charities). One charity followed the policy set out in the governing document. A few church-related charities had their ethical criteria set by their general assembly.

A significant minority of the responding charities (18 or 21%) had discussed the issue of an ethical investment policy at a trustee meeting and concluded that their charity did not need such a policy. In many cases (8 charities) this decision was driven by the belief that an ethical investment policy would result in lower financial returns. Several respondents also thought that it was not appropriate for the charity to “interfere” with the investment process. Other reasons for not adopting an ethical investment policy included lack of staff resources and use of pooled funds for

which it was not possible to implement ethical criteria. Nevertheless, 11 charities with no ethical policy were planning to discuss one over the next twelve months.

Figure 4 details who the 72 respondents thought influenced the investment policy. In most cases, the trustees had been advised by investment managers. In many cases investment advisors, such as Cambridge Associates, were also consulted. A smaller number of charities had obtained advice from solicitors and ethical investment research organisations such as EIRiS. Other influences mentioned included staff within the charity and other church denominations.

Figure 4 Who Influences Investment Policy?



Six respondents commented that they were currently reviewing their investment policy. Three charities specifically mentioned their interest in developing additional positive ethical criteria.

One charity mentioned that ‘The Trustees would like to know where to get good advice on ethical investment.’ Another charity pointed out that ‘There is more of an appetite for this [ethical investment] amongst staff than from Trustees’. This indicates that different stakeholders may disagree about the need for an ethical policy and that among some charities which did not have an ethical policy there was interest in the issues.

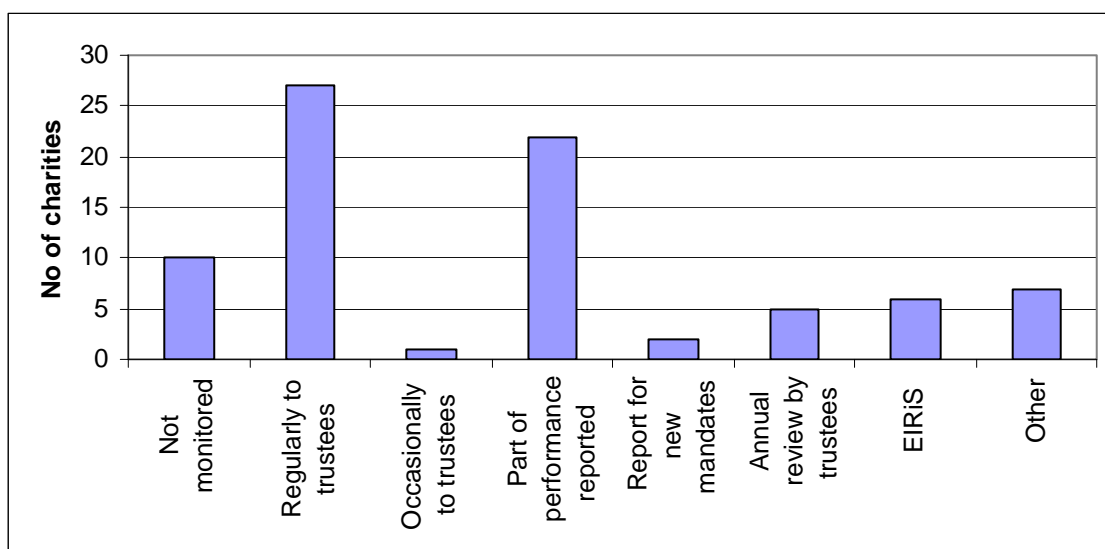
4.2 Implementation, Monitoring, Reporting

For most charities responding to this question (52) it was the external fund manager who implemented the ethical investment policy (43 charities). ‘Co-operation’ in this process involved the trustees for 18 charities and the senior management of the charity for 17 charities. In at least five cases an investment committee of the charity was involved.

Most of the responding charities (73) reported investment performance information to either a subcommittee of trustees or to all trustees (38 cases). Only 31 charities stated that they reported investment performance to senior management of the charity other than the Finance Director.

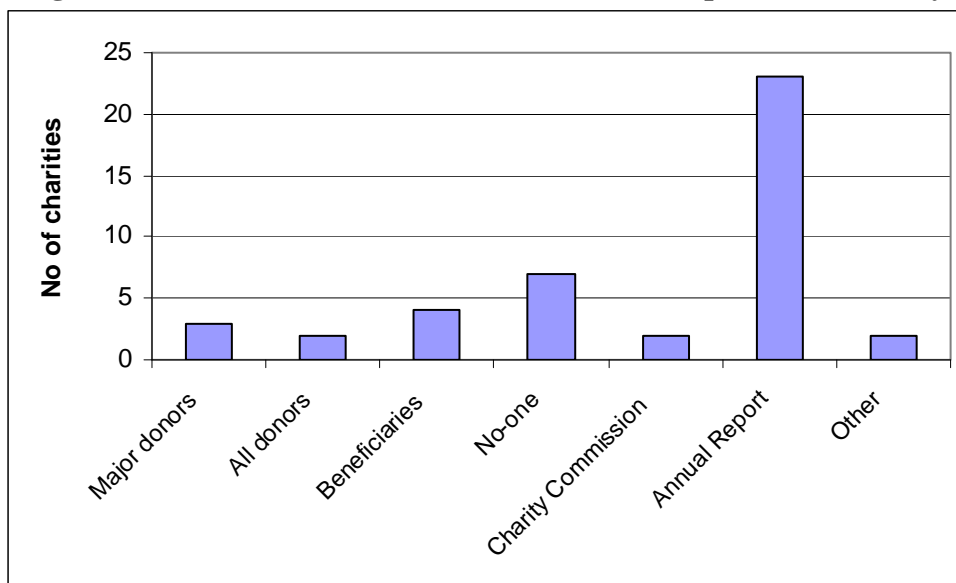
Figure 5 details the 60 responses to the question which asks how the ethical investment policy was monitored. Some respondents (10) did not monitor the implementation of the ethical policy. Of these charities, half (five) had a formal written ethical policy. The most common way to monitor the implementation 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. 30 of the charities used only one mechanism to monitor the policy. This raises the concern that for many charities either the trustees or management may be unaware of how the policy is implemented (Indeed the CCLA 2003 survey revealed that the majority of trustees had no idea how the ethical policy of their charity was implemented). Eighteen charities used two or three of the methods below to monitor the implementation of the ethical policy (only two used three methods). It seems clear that every sample charity could improve their performance in this area of monitoring the implementation of their policies. Improved monitoring in conjunction with reporting on it would also improve accountability to donors.

Figure 5 How is the Ethical Policy Monitored?



We also considered whether the charities report to others about their investment performance. 38 charities responded to the question “to whom is investment performance information reported externally?” The responses are reported in Figure 6. 23 Charities specified that this information was disclosed in the annual report. Seven charities stated that this information was not disclosed to anyone externally. Four charities mentioned beneficiaries and three charities specifically mentioned that major donors are supplied with investment performance information. For the ‘other’ column, one charity mentioned the British and Scottish parliaments and another the charity members. It seems that very few charities report on investment performance in other ways than through the annual report. In most cases the beneficiaries or donors will be informed only if they receive and read the annual report of the charity. This is clearly unsatisfactory for accountability purposes. It is also noteworthy that this question got the lowest response rates of all questions.

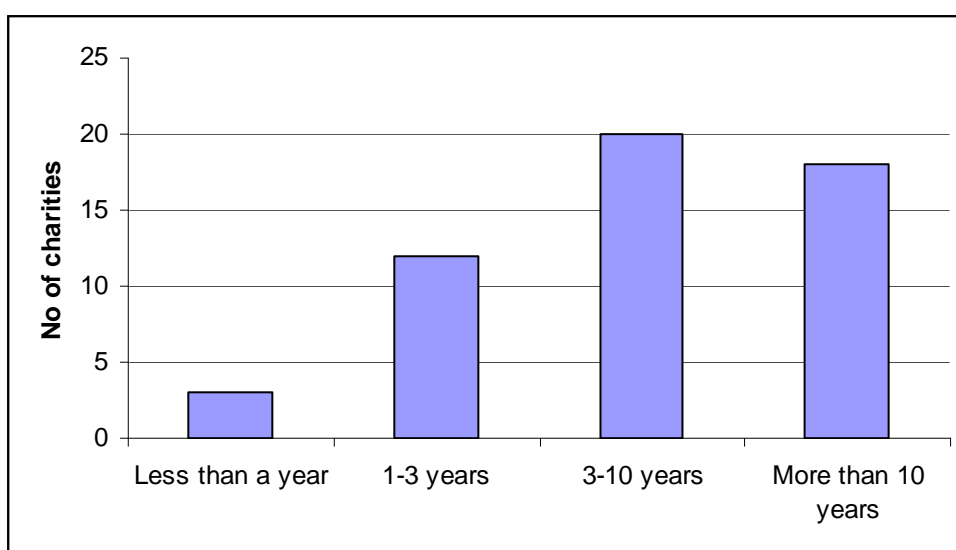
Figure 6 To Whom is Investment Performance Reported Externally?



The average responding charity (n 60) thought that the ethical investment credentials of the financial institutions were 'fairly important'. Six charities thought it was 'very important' and all these charities had formal written ethical investment policies. However, nine charities thought it was 'not important at all', of these five had no ethical policy and one had an informal written policy. The other three had written policies but as they were large investors they could potentially stipulate any ethical criteria to any financial institution. On average charities without an ethical policy thought the credentials were of little importance (4), while charities with a policy rated credentials between important (2) and fairly important (3). This difference was statistically significant at the 1% level.

Figure 7 details the number of years that the responding charity had employed an ethical investment policy. The most frequent response category was '3-10 years' ago (20 charities), with 18 charities responding 'more than 10 years', while only three charities had launched a policy in the last 12 months.

Figure 7 Time Since Launch of Charity Ethical Policy



We invited respondents to comment on the implementation of their ethical investment policy. Seven charities responded to this open-ended question and we quote three of them below. One Christian charity made the following comment: ‘Definitions of "ethical" vary considerably across fund managers, particularly on environmental issues and wider scientific issues.’ One cancer charity wrote that: ‘The difficulty is how to implement it when using pooled investment funds or alternative investment funds in order to spread portfolio risk.’ One religious charity made a comment which seem to reflect the situation for many charities: ‘At present, a great deal of reliance is placed on investment fund managers.’

4.3 Views on Regulatory Reform and Investment Returns

In 2002, the Cabinet Office’s Strategy Unit recommended in the report, *Private Action, Public Benefit*, that the trustees of larger charities should be required to state ‘the extent (if any) to which social, environmental or ethical considerations are taken into account in the selection, retention and realization of investments’ and ‘their policy (if any) in relation to the exercise of rights (including voting rights) attaching to investments’. We asked the charities about this and 75 responded. Table 5 below provides the average scores. The overall view indicates that charities with investments exceeding £5 million should possibly do this but not medium or small charities. Answers to this question varied, but whether a charity had an ethical investment policy or not did not seem to make a significant difference.

Table 5. Should Stock Selection Considerations be Publicly Disclosed?

Disclosure Required by:	Mean Response¹	St.Dev	p-value¹⁴
By large charities only (investments > £5million)	2.9	1.5	0.12
By large and medium sized charities only [investments > £1million]	3.2	1.5	0.14
By all charities	3.6	1.6	0.11

Note 1: Response Scale: 1 = 'strongly agree' and 5 = 'strongly disagree'.

Most charities preferred not to disclose their voting track record. Indeed, 40 charities either disagreed or strongly disagreed with being required to publish such information, while only 10 respondents agreed or strongly agreed. There was no significant difference in the answers between charities who had an ethical investment policy and those who did not. There was, however, more sympathy for legislation requiring the largest charities to publish voting information (Table 6).

Table 6. Should these considerations in voting shares be publicly disclosed?

Disclosure Required:	Mean Response¹	StDev	p-value¹⁴
By large charities only (investments > £5million)	3.0	1.4	0.33
By large and medium sized charities only [investments > £1million]	3.4	1.5	0.22
By all charities	3.6	1.7	0.29

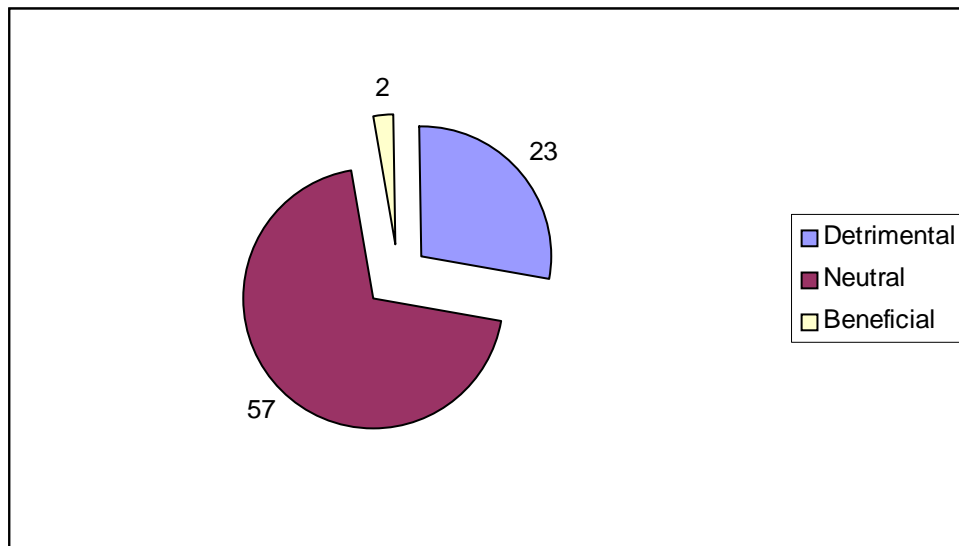
Note 1: Response Scale: 1 = 'strongly agree' and 5 = 'strongly disagree'.

Finally, we elicited respondents' views regarding the financial impact of an ethical investment policy (see Figure 9). Most charities (57) out of 82 responding thought that the impact would be neutral. A significant minority (23) however, thought the effect would be detrimental, compared to only two charities who thought the effect would be beneficial. One of these two charities has had an ethical investment policy for approximately 30 years. The other charity which thought the impact would be beneficial has also operated an ethical investment policy for many years. Both charities are also very large investors. One respondent commented that the impact can be neutral or detrimental "Depending on how exercised." Of the 23 charities

¹⁴ P-value of non-parametric Mann Whitney U Test of difference in response between charities with an ethical investment policy vs charities with no ethical investment policy.

which indicated a potential detrimental impact, 15 had a written ethical investment policy while eight of the 23 did not have a policy. Whilst charities with an ethical policy had a marginally more positive view of the financial impact of such a policy there was no significant difference between the two groups.

Figure 8 Impact of an Ethical Investment Policy on Financial Returns



5. Selected Interview Findings and Discussion

In this section, we focus on three key issues: Ethical investment policy; accountability and responsibility and financial performance.

5.1 Nature of Ethical Investment Policy

The interviewees differed substantially in how an ethical policy was to be implemented in practice as some of the quotes in this section indicate. Overall all the interviewees were supportive of having an ethical policy of some sort as this comment 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 1]

The majority of the interviewees had a negative perception of engaging directly with company management on ethical issues. Such involvement was considered ‘political’ and the interviewees thought they lacked the expertise (and the time) to engage with firms themselves as the following quotes illustrate:

“That is more political lobbying... “ [FinDir 1]

“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.” [FinSec]

One charity however had engaged directly with HSBC Bank about their involvement in funding clear cutting of rain forests and with supermarket chain Tesco about the planned development of new stores in sensitive areas.

Overall, the attitude to direct engagement was somewhat negative, a view which also extended to voting company shares as the following quote indicates:

“Our position is purely that we view our investments not as a tool for advocacy but purely to raise the cash that is necessary” [Haud 1]

By contrast, another charity took a very active approach to their investments as the quote below demonstrates:

“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 1]

On the other hand, there are some charities which consider voting a part of the ethical policy as the quote below illustrates.

“...now for example BP shareholder resolution. We spoke to both parties before we made a decision on how we would vote on that resolution. So we take shareholder resolutions seriously.” [Fund Man 1]

Most sample charities employed a small number of ethical criteria. At least 14 charities used only one criterion. Prior to the new Charity Commission guidance in 2003 there had to be a very clear link between ethical screens and the aim(s) of the charity. The following interview quote illustrate this connection:

“...the church has to be very pragmatic in the way it looks at its ethical investment policy because the exclusions that are attached have to be very much related to the Church” [Fund Man 1]

Another example of what might be thought of as a pragmatic approach is illustrated by the quote below. This approach was based on engagement and voting of shares with a credible threat of disinvestments.

“in our hearts as it were we would rather have no pharmaceuticals at all because they are so heavily involved in causing all sorts of problems but we nonetheless decided that we would pick on four or five which on various criteria came out better than the rest” [Trustee 1]

Outside the UK product availability (lack of institutional ethical funds) was cited as a barrier to ethical investing as the following quote demonstrates:

Because you either had no screens or you had to accept all of these screens. [FinSec]

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 the ethical policy states that they also exclude alcohol and armaments manufacturers. This indicates that that some charities fail to fully implement their written ethical investment policies in practice. We also interviewed charities with ethical investment policies which nevertheless invested a minority of their assets in hedge funds that did not adhere to any ethical criteria. Next, we consider several views about accountability and responsibility.

5.2 Accountability and Responsibility

There was recognition among the interviewees for the need of accountability as the following quotes illustrates:

“...we have to be certain that the money that is given for a specific purpose is used only for that purpose.” [Haud 1]

Another charity was mainly concerned with the views of their constituencies in terms of to whom they were accountable. This charity did not believe that views of other charities about their investments were important as the quote below demonstrates.

“...and it is important for constituencies to know that we invest as ethically as we can” and “We take seriously anything that our different constituencies say.” But “We are not bothered by what other charities think.” [FinSec]

The impression of the researchers was that many of our sample charities are not held accountable in a serious way. This was stated very clearly by one of the interviewees.

“we are in an extraordinary privileged position of not really being held to account in a serious way “ [Trustee 1]

Yet this charity did provide one of the most extensive annual reports -with detailed disclosure of investment policy - of all our sample charities. This charity also provided extensive disclosures on the internet.

Some authors have argued that some trustees are not fully aware of their responsibilities, particularly relating to charity investments (Palmer and Vinten 1998). One of our interviewees agreed:

“...charity trustees are so unaware of their responsibility” [FundMan 1]

The CCLA (2004) survey demonstrated clearly that a majority of the responding trustees did not know how the assets of their charities were invested. We now consider what the interviewees felt about ethical investment and financial performance.

5.3 Financial Performance

The following quote captures the general sentiment in the survey responses regarding the (potentially detrimental) financial implications of an ethical investment policy:

“You don’t go into ethical investments really because you think they will perform better than the market. If you are talking about ethical investments it is because you feel strongly enough that you are prepared to lose money on the issue.” [Haud 1]

Another interviewee also emphasised the importance of considering ethical issues in the investment process:

“We are not there again to make the final investment buck. You know squeeze the last drop out of a portfolio. It is not what we are trying to do.” [FinDir 1]

Finally, one of our interviewees who was a finance professional was convinced that their ethical policy had not had a negative impact on their risk adjusted returns. This charity had 30 years of experience in implementing their ethical policy. Interestingly, this charity also had some private equity investments in which the charity took an active ownership role.

“we had done slightly better than we would have expected” [Trustee 1]

This issue of financial performance is much contested and many have undertaken empirical studies of this issue. For example, in the context of UK, US and European ethical retail funds, Mallin *et al.* (1995), Statman (2000) and Kreander *et al.* (2005) found that risk- adjusted returns of ethical and a matched pair of ‘non-ethical’ funds were not significantly different. More recent research by Kempf and Osthoff (2007) indicated that strategies based on ethical criterion can earn superior returns. One of the largest charity fund managers stated that between 1998 and 2003 a fund that had invested in all the companies they exclude due to ethical criteria would have had raw returns 0.2% *higher* per annum on average (CCLA, 2004). This fails to consider risk. Some years the effect of exclusions can be positive. A few charities do however check up on these issues:

“...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 ...” [Haud 1]

These comments reflected the concern of three interviewees that financial institutions may use ethical screens as an excuse for poor investment performance. Despite the fact that one interviewee referred to assurances from their fund managers that there is no impact on investment returns when less than 15% of the stock market is excluded.

A final point about financial performance is that so called social investments or programme related investments are accepted in the UK and are not required to generate a market level return. Several charities mentioned such investments.

Examples were loans to beneficiaries and other charities on terms more favourable than offered on the market. Another charity provided micro-credit to poor people, but regarded this as an activity rather than a social investment. A form of social investment mentioned in the literature is provision of housing for disadvantaged groups on more favourable terms than the market provides. In the next section we will move from the UK to consider the ethical investment policies of some large Norwegian charities.

6. Investment Disclosures of Norwegian Charities

Investment disclosures by Norwegian charities tended to be brief. We present some examples of investment disclosure in this section. For general coverage of financing and giving to charities in Norway see Heitmann and Selle (1999) and Wollebæk *et al.*, (2000). Many charities kept most of their funds in bank accounts¹⁵. Such funds are not considered in Table 7 below which reports only stock market investments. At least seven of the charities in Table 7 invest in ethical funds according to their annual reports. At least five of these charities have an ethical investment policy including the large charities: *Fritt Ord*, *Opplysningsvesenets fond (OVF)*, *Røde Kors (Red Cross Norway)* and *UNIFOR*. The charities which report the most detailed information about their ethical investment policies and the companies they invest in are OVF and UNIFOR (See Appendices 1, and 2). These charities are significant investors, for example they owned shares directly in the oil company Norsk Hydro for 59 million NOK in 2006. *Fritt Ord* publishes an ethical investment policy on their website (See Appendix 3) and *UNIFOR* also has information about their investment policy on their web site (Appendix 4). *OVF* and *Fritt Ord* avoid investment in sectors such as: Liquor, nuclear power, pornography, tobacco and weapons of mass destruction.

In 2006 the value of stock market investments of 20 Norwegian charities in Table 7 amounted to 8854 million Norwegian Kroner (NOK), approximately £800 million. In addition these charities had at least 1700 million NOK in bank deposits in 2006

¹⁵ For example, LHL had 232 million NOK in bank accounts in 2006 (LHL, 2006).

(See Appendix 5). In most cases these figures are based on charity annual reports, the figures in [blue](#), however, are based on the financial database Ravninfo.

Table 7 Market Investments by Norwegian Charities

Charity	Investments (million NOK)			
	Year	2004	2005	2006
Amnesty		0		1
Dyrebeskyttelsen Norge		0,5	0,5	0,9
Flyktinghjelpen		47	52	
Fritt Ord		1664	1772	2183
Helse og Rehabilitering			119	132
Kreftforeningen		546	724	914
LHL		0,3	0,3	1
Nasjonalforeningen for folkehelsen		95	112	143
Norges Naturvernforbund			2	2
Norsk Folkehjelp			24	23
Norsk Forening for Cystisk Fibrose			1	1
Norsk Luftambulans			32	33
Norske Kvinners Sanitetsforening			93	89
Det Norske Misjonsselskap		71	69	63
OVF		1397	1674	1850
Røde Kors		817	1639	2027
SOS Barnebyer		187	185	193
Unifor			948	1195
Utviklingsfond			1	1
WWF Norway			2	3
Totall		4825,1	7449,3	8854,1

WWF Norway reports that “*WWFs midler investeres konservativt og langsiktig og etter retningslinjer som skal sikre mot risiko for bidrag til miljøødeleggelser, uetiske handlinger, krenkelser av menneskerettigheter og korrupsjon*” (WWF, 2006). This means that WWF-Norway claims to consider the environment and human rights in their investment policy. One way WWF operationalises this policy is through investing in an ethical fund (the Storebrand Global Miljø fund).

Kreftforeningen (cancer charity) reports that “*Kreftforeningen investerer ikke i papirer utstedt av selskaper som strider mot kreftforeningen vedteksbestemte formål eller etiske retningslinjer*” (Kreftforeningen, 2005). The charity aims to avoid investments conflicting with its aims, whether this involve s more than avoiding tobacco firms in practice is not clear from the annual report. Kreftforeningen also invests in a Norwegian ethical fund.

Indeed, Norwegian charities are significant investors in ethical funds, in addition to the examples above Nasjonalforeningen for folkehelsen invested 8,1 million NOK in the Banco Human ethical fund (Nasjonalforeningen, 2006).

In the UK charities normally provide information about their investment managers, asset allocation and financial performance in addition to their investment policy. Some religious charities provide substantial information about both their investments and their ethical investment policies. In Norway investment disclosures by charities are clearly more limited.

Possible reasons for limited reporting by Norwegian charities may reflect the smaller sector (in financial terms) and the limited tradition compared to the size of the voluntary sector in Britain and its longer tradition. In addition the UK has a longer tradition of specific charity accounting regulations and requirements for larger charities to file audited accounts. The UK financial market is also larger, providing UK charities with a wider range of products to choose from (and then to report on). Larger Norwegian charities such as OVF and Kreftforeningen however, do report on their investment policies in a similar way to their UK “equivalents”.

7. Conclusions

This section summarises the results of the study and presents conclusions.

In this paper we have presented evidence on:

1. The ethical investment policies of leading UK charities; and
2. How charities monitor their ethical investments.
3. Preliminary results on reporting on ethical investment by some Norwegian charities

We found that 48 respondents to our survey (56%) had a written ethical investment policy. In many cases, however, the policy was not published; specifically, 32 of the charities (38%) had published their ethical policy.

The most common way of operationalising an ethical policy was through negative screens, typically avoiding investment in tobacco, weapons, and pornography companies. A significant minority of respondents had extensive ethical investment policies. Thus 26 charities (40% of respondents) employed three or more ethical screens and 13 charities (20% of respondents) employed three or more methods of ethical investment (See Figure 2). It is increasingly common to give the fundmanager(s) a mandate to engage with companies on environmental and social issues. There is clearly scope for more engagement and shareholder activism by charities in both Norway and the UK. **We recommend that charities consider a wide definition of ethical investment which includes investment in line with their mission (sometimes called social or programme related investments) and engagement with companies in addition to screening out problematic sectors.**

The most important driver for establishing an ethical policy was the values relating to the charity or the mission of the charity, with reputational risk being another significant driver. Interview evidence indicated support for ethical policy, but revealed that the implementation was often pragmatic and also in a few cases quite different for different charities. A few charities voted and engaged actively with companies while most charities did not see this as part of their ethical policy. For those charities that had decided *not to* adopt an ethical policy, the main reason was a belief that it would lower financial returns. Whilst a few papers by professional

organisations suggest that there may be a small reduction in raw returns, academic evidence indicates that, ethical unit trusts have performed as well as non-ethical ones, on a risk adjusted basis. Interview evidence reinforced this issue of a perceived tension between ethics and financial returns on the investments. Whilst there is mixed evidence Mallin *et al.* (1995), Naturvårdsverket (2001) and Kreander *et al.* (2005) suggest ethical funds perform as well as similar non-ethical funds.

The survey evidence presented indicated that many charities do not closely monitor the implementation of the ethical policy. Typically, only one method is used and a few charities did not monitor the implementation of the policy at all. The interviews also indicated that the fund managers have a key role in implementing the ethical investment policy. A prior survey of charity trustees confirmed this conclusion by revealing that most of the respondents knew little (if anything) about how the ethical investment policy of their charity was implemented (CCLA, 2004). This indicates that charities in the UK are less sophisticated in their approach than some American charities which actively use their investments to further their aims (Guay *et al.* 2004). Further statistical analysis on the questionnaire results will be conducted and results reported in future publications.

Reporting on ethical investment was clearly limited for Norwegian charities with the exception of large charities such as Fritt Ord, Kreftforeningen and OVF. Several of the well known Norwegian charities invested in ethical funds. There were few disclosures about monitoring of the charity investments. The findings suggest that both UK and Norwegian charities can improve their monitoring of fund managers. **We recommend that charity trustees monitor their fund managers in regards to both financial performance and implementation of ethical policy at least annually and that fund managers are replaced if performance and reporting is not satisfactory.**

These findings create a number of interesting challenges for charity accountability. In terms of their downward accountability to their beneficiaries, we think that there are grounds for including the beneficiaries in the process of developing an investment policy, and then reporting to them on how it has been administered. We thus call for stakeholder dialogue between charities, donors and beneficiaries. In

addition we believe there is room for improvement in terms of charity reporting on investments and how funds are used. Several Norwegian charities report virtually nothing about their investments. **We recommend clear reporting on how charities use their resources. Reports should at least include investment policy and what asset classes the charity invests in. Ethical investment issues should be mentioned. It is also important to disclose the amount of funds used in charitable activities.**

We further argue that, in terms of upward accountability, both the charities themselves and donors were concerned with ensuring that the aim of the charity is not contravened by charity investments. We argue that charities can better align their values and their investments and that this would be helpful in terms of improved reputation among both donors and staff. The first step is a credible ethical investment policy. Many organisations such as EIRIS and UKSIF can help with the practicalities. Another possibility is to form an ethical advisory board such as the Norwegian petroleum fund and the first ethical funds in Finland and the UK have done. **We recommend that charities adopt an appropriate ethical investment policy in harmony with their aim(s).**

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Appendix 1 Some Investments held by the Norwegian Charity OVF

Some OVF Investments	(Million NOK 2006)
<i>Absolute Return Bondfunds</i>	102
Aceryg SA	6
<i>Alysheba Fund LTD (H)</i>	12
<i>Banco Norge</i>	27
<i>Bank Inv. Emerging market debt</i>	8
<i>Bank Inv. Global Emerging markets eq. SRI</i>	8
<i>Cheyne Special Situations Fund (H)</i>	12
<i>CQS Convertible and Quant Strategy Fund (H)</i>	12
<i>Credit Suisse Eq. Fund Asian Property</i>	15
<i>Chrystal Fund II</i>	13
<i>Deephaven Market Neutral Series (H)</i>	13
<i>Dexia Sustainable</i>	13
<i>Diversified Income Institutional inc (H)</i>	110
DNB NOR ASA	6
GlaxoSmithKline Plc	6
<i>Global Solidarity Fund International</i>	9
<i>Four Season Priv.Equity</i>	15
<i>Four Season Venture</i>	8
<i>JP Morgan Funds JF India</i>	6
Macquire Infrastructure	7
Mediehuset Vårt Land AS	6
<i>Nordea Private Equity II Global Fund</i>	7
<i>Nordea Fixed Income Portfolio Plus</i>	91
Norsk Hydro	18
Orkla ASA	6
<i>Pareto Høyrente</i>	15
<i>Peloton Multi Strategy (H)</i>	13
<i>Permal FX Financials & Futures Ltd (H)</i>	14
Prosafe	10
Roche Holding Ag	6
Statoil	13
Seadrill	8
<i>Skagen Avkastning</i>	22
<i>Skagen Høyrente</i>	10
<i>Skagen Kon-tiki fund</i>	48
<i>Skagen Tellus</i>	10
Solstad Offshore ASA	6
Telenor	9
<i>Tetragon Credit Income Fund Ltd</i>	13
TGS Nopec Geophysical Co ASA	7
Wilhelm Wilhelmsen ASA	7

Investment in funds denoted in *italics*, whilst those in **bold font** are companies. Some of the funds above are ethical investment funds (Ex Dexia Sustainable...). This table does not include direct investment in property although OVF have several such investments valued above 10 million NOK. Only hedgefunds (denoted with an H) valued at above 12 million NOK are included in this table. OVF has significant investments in many other hedge funds. The table also excludes all investments valued at less than 6 million NOK.

Appendix 2 Investments held by the Norwegian Charity UNIFOR

Some UNIFOR Investments	(Million NOK 2006)
Acergy SA	13
Aker ASA	6
Aker Kværner	6
<i>Carnegie Worldwide II</i>	120
<i>Cypress Management Offshore (H)</i>	6
DNB NOR ASA	14
Ekornes	6
<u>Hafslund 5.10 21/11/2016</u>	10
Lerøy Seafood Group	9
<i>Marathon Structured Finance Fund (H)</i>	7
Norsk Hydro	41
<u>Norsk Stat 6 05/11</u>	77
<u>Norsk Stat 0 03/07</u>	21
<u>Norsk Stat 5.5 05/09</u>	10
Odfjell	6
<u>Olov Thon Eiendomsselskap ASA FRN 12/09</u>	12
Orkla ASA	18
Petroleum Geo Services	8
Prosafe	18
<u>Rygge Vaaler Sparebank FRN 01/10</u>	15
<u>Sandnes Sparebank 3.5 10/08</u>	15
<u>Sandsvær Sparebank FRN 05/09</u>	13
Seadrill	15
<i>Skagen Global II</i>	122
<u>Sogn og Fjordane Fylkeskommune 4.22 11/10</u>	10
Solstad Offshore ASA	10
<u>Sparebanken Hardanger FRN 05/11</u>	10
<u>Sparebanken Midt Norge 3.15 07/08</u>	15
<u>Sparebanken Pluss 5.05 06/08</u>	10
<u>Sparebanken Rogaland 3.4 07/10</u>	17
Statoil	30
Storebrand Bank ASA 4.25 11/10	10
<i>Storebrand Eiendomsfond</i>	27
<i>Storebrand Special Opportunity</i>	21
Telenor	13
TGS NOPEC	17
<i>Thames River Growth & Income Fund</i>	29
<u>Vardar AS 3.59 12/08</u>	13
Wilhelm Wilhelmsen ASA	17
Yara International ASA	14

Investment in funds denoted in *italics*, whilst those in **bold font** are companies and those underlined are bonds. This table does NOT include all UNIFOR investments (see UNIFOR, 2006). Only bonds valued at above 9 million NOK are included in this table, UNIFOR has significant investments in many other bonds. Only hedgefunds (denoted with an H) valued at above 6 million NOK are included in this table. UNIFOR has significant investments in many other hedge funds. The table also excludes all investments valued at less than 6 million NOK.

Appendix 3 Ethical Investm. Policy for Freedom of Expression Foundation

Etiske retningslinjer for investeringer

Institusjonen Fritt Ord har fått spørsmål om de etiske retningslinjene for institusjonens investeringer i utlandet. Det meste av Fritt Ords utenlandsmidler forvaltes av Morgan Stanley i London, etter kriterier fastsatt av Fritt Ord. De etiske kriteriene som har ligget til grunn de siste årene, er oppsummert i vedlagte dokument fra Morgan Stanley og EIRIS (Ethical Investment Research Services). Disse retningslinjene er regelmessig supplert med løpende informasjon om brudd på arbeids- og menneskerettigheter, miljøskader med videre. Fritt Ord arbeider med en bredere sammenfatning av institusjonens investeringsplan og presisering av dens etiske samfunnsansvar.

Se "Introduction to EIRIS" og "The EIRIS-Morgan Stanley ethical screening criteria"

Introduction to EIRIS

EIRIS was set up in 1983 with the help of a group of churches and charities which all had investments and strong ethical convictions, and needed a research organisation to help them put their principles into practice when making investment decisions.

EIRIS researches over 2,700 companies worldwide. These include all companies on the FTSE All World Developed Index and the FTSE All Share Index. EIRIS researches companies according to a set of environmental, social, governance and other ethical criteria, and delivers the research via its Ethical Portfolio Manager software which allows users to produce bespoke screens or reports, based on a specific set of criteria chosen by the client.

The EIRIS-Morgan Stanley ethical screening criteria

EIRIS screens Morgan Stanley's investment universe on a number of criteria to ensure compliance with its clients' concerns. These include involvement in the nuclear industry; the sale or production of alcohol and tobacco; involvement in the gambling industry; involvement in the manufacture of weapons and the supply of services to the military; and the supply of adult entertainment services.

Involvement in nuclear power:

Does the Company own or operate nuclear power stations?

Involvement in alcohol sale or production:

Does the Company derive over 33% of its turnover from alcohol sale or production?

Involvement in the gambling industry:

What proportion of turnover comes from gambling?

Proportion of turnover derived from military sales:

Does the Company derive over 5% of its turnover from military sales?

Involvement in weapons manufacture:

Do the Company's products or services constitute all or part of a conventional or nuclear weapons system?

Supply of strategic services to military bases:

Does the Company supply strategic services to military or nuclear bases?

Involvement in adult entertainment services:

Does the Company provide adult entertainment services?

Involvement in tobacco sale or production:

What proportion of turnover comes from tobacco sale or production?

Appendix 4 Ethical Investment Policy of Unifor

UNIFOR

ETISKE RETNINGSLINJER

Styret i Unifor vedtok i november 2003 å følge de etiske retningslinjene som ville bli vedtatt for Statens Petroleumsfond

De etiske retningslinjene for Statens Petroleumsfond ble fastsatt 19. november 2004. De etiske retningslinjene innebærer blandt annet at selskaper som produserer særlige inhumane våpen skal utelukkes fra porteføljen. Videre skal selskaper utelukkes hvis det er uakseptabel risiko for at Unifor gjennom sine investeringer medvirker til:

- Grove eller systematiske krenkelser av menneskerettighetene, som for eksempel drap, tortur, frihetsberøvelse, tvangsarbeid, de verste former for barnarbeid og annen utbytting av barn
- Alvorlige krenkelser av individers rettigheter i krig eller konfliktsituasjoner
- Alvorlig miljøskade
- Grov korrupsjon
- Andre særlig grove brudd på grunnleggende etiske normer

Posted on UNIFOR website 23.06.2005 , Accessed in January 2008.

See "Etske retningslinjer for Statens pensjonsfond – Utland" on www.regjeringen.no for complete ethical policy of the Norwegian State Petroleumfund.

TRANSLATION of the Ethical Policy of UNIFOR

The board of UNIFOR decided in November 2003 to follow the same ethical guidelines as those of the State Petroleumfund. The ethical guidelines of the state petroleumfund were approved in November 2004. These guidelines mean that UNIFOR excludes companies that produce particularly inhuman weapons (ex cluster bombs and nuclear weapons). In addition Unifor excludes companies if there is unacceptable risk that UNIFOR through its investments contribute to:

- Substantial or systematic violations of human rights such as killing, torture, imprisonment, forced labour and the worst forms of child labour
- Serious violations of individual rights in wars or conflict situations
- Significant environmental damage
- Serious corruption
- Other substantial violations of fundamental ethical norms

Appendix 5 Bank Assets of Charities in Norway

Charity	Bank Deposits (million NOK)			
	Year	2004	2005	2006
Amnesty		9	13	19
Dyrebeskyttelsen Norge		3	7	13
Flyktinghjelpen		189	219	
Fritt Ord		242	350	120
Helse og Rehabilitering			11	40
Kreftforeningen		111	119	64
LHL		63	125	232
Nasjonalforeningen for folkehelsen			63	52
Norges Naturvernforbund			2	3
Norsk Folkehjelp			159	185
Norsk Forening for Cystisk Fibrose			1	1
Norsk Luftambulans			35	48
Norske Kvinners Sanitetsforening			14	18
Det Norske Misjonsselskap		33	14	29
OVF			57	90
Røde Kors		723	690	672
SOS Barnebyer			136	159
Unifor			15	19
Utviklingsfond			17	4
WWF Norway		11	9	24
Totalt		1383,3	2056,5	1791,9

This table only presents figures from some well known charities in Norway. The figures are primarily based on charity annual reports. Those in blue are based on the financial database Ravninfo. Several charities have larger bank deposits than investments (e.g. Flyktinghjelpen, LHL, Utviklingsfonden and WWF Norway).

HiT skrift / HiT Publication

Niklas Kreander, Vivien Beattie & Ken McPhail: Charity ethical investment: Policy practice and disclosure. (HiT Publication 2/2008). 49 s.

Ragnar Prestholdt: Fotomotivundersøkelsen på Geilo, Hovden og i Rauland 2007..(HiT-skrift 1/2008). 64 s., 1 cd

Anne Aasmundsen, Per Isaksen og Ragnar Prestholdt: Reiselivsundersøking i Setesdal 2006. (HiT-skrift 1/2007). 47 s., vedlegg.

Jan Heggenes og Jostein Sageie: Rehabilitering av Måna, Tinn i Telemark: Tilstand og tiltak (HiT-skrift 6/2006). 73 s.

Nils Per Hovland: Bygg nettverk – stå på! En studie av entreprenørielle prosesser i Buskerud, Telemark og Vestfold. (HiT-skrift 5/2006). 45 s.

Sigrun Hvalvik og Ellinor Young: ”Et sted hvor hun kan finne seg til rette og bo...”. Om ugifte mødre og fødehem i Telemark i perioden 1916-1965. (HiT-skrift 4/2006). 36 s.

Halvor Kleppen: Etikette i golf. (HiT-skrift 3/2006). 71 s.

Arne Hjeltnes: Kartlegging av habitater til hjort i deler av 4 kommuner i Telemark. Utprøving av objektbasert klassifikasjon på Landsat 5 satellittdata. (HiT-skrift 2/2006). 35 s., 1 kart.

Arne Hjeltnes: Høyoppløselige bilder som grunnlag for overvåking av endringer i fjellvegetasjon. Skisse til nytt registreringssystem. (HiT-skrift 1/2006). 47 s.

Ole Martin Høystad: Tempo og paradoks i MENTALITETSHISTORISKE ENDRINGAR. Undset-Elias-Foucault. 40 s. (HiT-skrift 7/2005)

Ole Martin Høystad: Hjertet i hjernen. Det biologiske grunnlaget for kjenslene. 49 s. (HiT-skrift 6/2005)

Else Marie Halvorsen: Forskning gjennom skapende arbeid? 61 s. (HiT-skrift 5/2005)

Synne Kleiven: Overvåking av Prestevju rensesepark. Sluttrapport 2002-2004. 15 s., vedlegg. (HiT-skrift 4/2005)

Anne Aasmundsen, Per Isaksen og Ragnar Prestholdt: Reiselivsundersøking i Setesdal 2004. 48 s. (HiT-skrift 3/2005)

Bjørn Egeland, Norvald Fimreite and Olav Rosef: Liver element profiles of red deer with special reference to copper, and biological implications. 32 s. (HiT Publication 2/2005)

Arne Lande, Kjell Lande og Torstein Lauvdal (2005): Fiskeundersøking i 4 kalka vatn på Gråhei, Bygland kommune, Aust-Agder. 22 s. (HiT-skrift 1/2005)

Oddvar Hollup (2004): Educational policies, reforms and the role of teachers unions in Mauritius. 37 s. (HiT Publication 8/2004)

Bjørn Kristoffersen (2004): Introduksjon til databaseprogrammering med Java. 33 s. (HiT-skrift7/2004)

Inger M. Oellingrath (2004): Kosthold, kroppslig selvbilde og spiseproblemer blant ungdom i Porsgrunn. 45 s. (HiT-skrift 6/2004)

Svein Roald Moen (2004): Knud Lyne Rahbeks Dansk Læsebog og Exempelsamling til de forandrede lærde Skolers Brug. 491 s. (HiT-skrift 5/2004)

- Tangen, Jan Ove, red.** (2004) Kyststien – tre perspektiver. 27 s. (HiT-skrift 3/2004)
- Jan Ove Tangen** (2004): Idrettsanlegg og anleggsbrukere-tause forventninger og taus kunnskap. 59 s. (HiT-skrift 2/2004)
- Greta Hekneby** (2004): Fonologisk bevissthet og lesing. 43 s. (HiT-skrift 1/2004)
- Ingunn Fjørtoft og Tone Reiten** (2003): Barn og unges relasjoner til natur og friluftsliv. 83 s. (HiT-skrift 10/2003)
- Else Marie Halvorsen** (2003): Teachers' understanding of culture and of transference of culture. 40 s. (HiT-skrift 9/2003)
- P.G. Rathnasiri and Magnar Ottøy** (2003): Oxygen transfer and transport resistance across Silicone tubular membranes. 31 s. (HiT Publication 8/2003)
- Else Marie Halvorsen** (2003): Den estetiske dimensjonen og kunstfeltet - ulike tilnæringer. 17 s. (HiT-skrift 7/2003)
- Else Marie Halvorsen** (2003): Estetisk erfaring. En fenomenologisk tilnærming i Roman Ingardens perspektiv. 12 s. (HiT-skrift 6/2003)
- Steinar Kjosavik** (2003): Fra forming til kunst og håndverk, fagutvikling og skolepolitikk 1974-1997. 48 s. (HiT-skrift 5/2003)
- Olav Solberg, Herleik Baklid, Peter Fjågesund, red.** (2003): Tekst og tradisjon. M. B. Landstad 1802-2002. 106 s. (HiT-skrift 4/2003)
- Ella Melbye** (2003): Hovedfagsoppgaver i forming Notodden 1976-1999. Faglig innhold sett i lys av det å forme. 129 s. 1 CD-rom (HiT-skrift 3/2003)
- Olav Rosef m.fl.** (2003): Escherichia coli-bakterien som alle har –men som noen blir syke av – en oversikt. 22 s. (HiT-skrift 2/2003)
- Olav Rosef m.fl.** (2003) Forekomsten av *E.coli* O157 ("hamburgerbakterien") hos storfe i Telemark og i kjøttdeig fra Trøndelag (2003) 25 s. (HiT-skrift 1/2003)
- Roy Istad** (2002): Oppretting av polygon. 24 s. (HiT-skrift 3/2002)
- Ella Melbye, red.** (2002): Hovedfagsstudium i forming 25 år. 81 s. (HiT-skrift 2/2002)
- Olav Rosef m.fl.**(2001) : Hjorten (*Cervus elaphus atlanticus*) i Telemark. 29 s. (HiT-skrift 1/2001)
- Else Marie Halvorsen** (2000): Kulturforståelse hos lærere i Telemark anno 2000. 51 s. (HiT-skrift 4/2000)
- Norvald Fimreite, Bjarne Nenseter and Bjørn Steen** (2000) : Cadmium concentrations in limed and partly reacidified lakes in Telemark, Norway. 16 s. (HiT-skrift 3/2000)
- Tåle Bjørnvold** (2000) : Minimering av omstillingstider ved produksjon av høvellast. 65 s. (HiT-skrift 2/2000)
- Sunil R. de Silva , ed.** (2000): International Symposium. Reliable Flow of Particulate Solids III Proceedings.11.- 13. August 1999, Porsgrunn, Norway. Vol. 1-2 (HiT-skrift 1/2000)

HiT notat / HiT Working Paper

Olav Tangvald-Pedersen , red. (2008) ”Å komme seg”. Pasientformulert rehabilitering. 49 s. (HiT-notat 2/2008)

Jan Heggenes (2008) Tinfos I – kanalisering av undervannet, fiskebiologiske vurderinger. 14 s. (HiT-notat 1/2008)

Olav Dalland og Kjersti Røsvik (2007) Fra intensjon til realitet og tilbake til intensjonen igjen. Evaluering av fleksibelt bachelorstudium i sykepleie. 77 s. (HiT-notat 3/2007)

Per Gunnar Disch m.fl. (2007) Feltarbeid på nett. En oppsummering av erfaringer fra feltarbeid på fleksibel sykepleierutdanning kull 2002. 11 s. (HiT-notat 2/2007)

Per Gunnar Disch og Anne K. Malme, red. (2007) Selvevaluering av fleksibelt bachelorstudium i sykepleie. Fra intensjon til realitet. 77 s. (HiT-notat 1/2007)

Sidsel Beate Kløverød (2004) Tap av verdighet i møte med offentlig forvaltning. 135 s. (HiT-notat 2/2004)

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Eli Thorbergesen m.fl. (2003): ”Kunnskapens tre har røtter...” Praksisfortellinger fra barnehagen. En FOU-rapport. 42 s. (HiT-notat 5/2003)

Per Arne Åsheim , ed. (2003) : Science didactic. Challenges in a period of time with focus on learning processes and new technology. 54 s. (HiT Working Paper 4/2003)

Roald Kommedal and Rune Bakke (2003): Modeling Pseudomonas aeruginosa biofilm detachment. 29 s. (HiT Working Paper 3/2003)

Elisabeth Aase (2003): Ledelse i undervisningssykehjem. 27 s., vedlegg. (HiT-notat 2/2003)

Jan Heggenes og Knut H. Røed (2003): Genetisk undersøkelse av stamfisk av ørret fra Måna, Tinnsjø. 10 s. (HiT-notat 1/2003)

Erik Halvorsen, red. (2002): Bruk av Hypermedia og Web-basert informasjon i naturfagundervisningen. Presentasjon og kritisk analyse. 69 s. (HiT-notat 2/2002)

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