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GOVERNANCE AND VALUE CREATION IN GRANT-GIVING FOUNDATIONS

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ABSTRACT

ORIGINALITY
Grant giving foundation leaders are increasingly concerned with understanding the primary role their institutions are pressured to play in financing the growing non-profit sectors of developed economies. Furthermore, many academics, political leaders and practitioners are expecting foundations to play the unique role of merchant banks and venture capitalists to foster the positive impact of non-profit organizations on societies, people and issues they affect. The main contribution of this study lies in proposing and testing a theoretical framework that foundations might implement in order to efficiently disseminate liquidity and managerial expertise among selected grantees as well as to improve grantees' social outcome.

OBJECTIVE
The main objective of the paper is to debate if effective governance plays a major role in driving the foundations' innovation and value creation processes. The argument being that only improved leadership and refined project screening will lead to greater effectiveness and, in turn, to more social impact.

METHOD
Building on the idea that foundations should act as financial partners, managerial experts and innovator facilitators dealing with the projects proposed by non-profit organizations, this paper isolates - through a survey and in the annual reports of Italian grant giving foundations - their records in term of governance, innovation attitude and performance. Next, relationships are researched to better investigate the effect that reliable governing leadership and accurate screening might have on foundations' effectiveness (as measured by economic and social value provision).

MANAGERIAL IMPLICATIONS
Results of this paper will contribute to a better understanding of the managerial drivers that help foundations in evolving toward a more sophisticated grant giving process. In particular, the analysis of governance will provide relevant insights about the path foundations are following in order to incorporate from the "for profit" competitive arena selected and tailored methods and practices to improve foundations' output and non-profit grantees' outcome.

INTRODUCTION

Grant-giving foundations are major players in the growing arena of non-profit organizations (NPOs). After accurate screening procedures they provide funding and managerial expertise to NPOs for projects with noticeable social outcomes. Foundations' support to NPOs is becoming increasingly important as government funding declines and the provision of welfare services moves from a national to a local level with a leading role of the nonprofit sector in the daily delivery of primary social services.

The emergent expectations placed upon Foundations raise fundamental issues such as the capacity of these organizations to deliver, in cooperation with the funded NPOs, the "welfare services" to the various constituencies that they serve and – last but not least – their capacity to create social value (Porter & Kramer, 1999).

The greater part of Italian grant-giving bank foundations is new; they have been constituted in the last ten-fifteen years, due to the privatization of public entities. Furthermore, nonprofit Italian foundations indirectly (through tax exemption and fiscal advantages) reduce public financial capability and there is a strong social expectation toward their social value creation in terms of both: economic performance (as measured by the money invested in social projects) and social output optimization (as measured by the type of projects selected and funded). Finally, a strong debate is growing in the country after the recent re-organization of the Italian banking foundations and many institutional players (Government, Bank of Italy, The Entrepreneur Unions, etc.) are expecting them to a play a major role in funding the so called "Third Sector" organizations and in acting as "Social Merchant Banks". These high expectations are based on the simple evidence that while the third sectors organizations are rarely performance oriented and managerially driven, more often the 88 Italian banking foundations incorporate business skills and investment expertise in their governance boards as well as in their operative structures. As such, the Italian banking foundations seem an appropriate research environment in order to fill two gaps frequently highlighted by the international non-profit literature.

A *first gap* is the limited number of studies focused on the value creation processes of non-profit organizations different from those directly engaged in the provision of social services (e.g. voluntary organizations). This gap is particularly critical if we consider the potential role of grant-giving foundations in funding the non-profit sector and leading social progress (Porter & Kramer, 1999) and, accordingly, this paper focuses only on the value creation processes of the leading Italian grant-giving foundations.

A *second gap* is about the relationship between managerial attributes and non-profit organizations' value creation. In fact, authors have suggested that the social value creation of NPOs could also depend on the governance model adopted (Bradshaw, Hayday & Armstrong, 2007) and a recent comprehensive review of the literature on non-profit governance (Ostrower & Stone, 2006), argued for more research toward the active role of non-profit boards of directors in the creation of value. Accordingly, this paper isolates two important governance attributes of foundations (leadership in the community; strategic control and managerial advice) in order to study their effects on the expected economic and social value creation (as measured by resources invested and strategic giving).

Starting from the above mentioned considerations, the paper tries to fill these gaps by answering the following research question:

RQ: *How governing bodies can improve value creation in grant-giving foundations?*

The paper addresses the above research question empirically by performing a quantitative analysis on a sample of 53 of the Italian banking foundations. The result of the analysis shows that specific attributes of boards facilitate the adoption of value creation actions. Thus, this paper argues for an emerging role of the Italian Bank Foundations as active players (i.e. merchant banks) for the further development of the national non-profit sector. This rising role requires higher strategic control and managerial advice capacity in the governance of foundation which in turn constitutes a distinctive driver of enhanced economic and social value.è

The paper is organized as follows. The first section presents the specific context of Italian banking foundations. Next, the theoretical background in term of non-profit value creation and governance relevance is presented. Section three presents the hypotheses. Section four the research methods. Finally, findings and conclusions are discussed, including implications for future research.

BANKING FOUNDATIONS IN ITALY

Italian grant-giving bank foundations are intermediaries between the individual donors and the social enterprise that they support. Currently, banking foundations are mainly involved in the areas of arts and culture, assistance to the underprivileged, education, support to voluntary organizations, healthcare and scientific research. They typically operate in their own community and rarely carry out activities outside their local territory or at an international level. They do not have shareholders, but regional and local authorities typically appoint the members of the Board of Governors, their most important body. The Italian Ministry of Economy and Finance (MEF), as the Supervision Authority, prescribes investment guidelines and special tax status.

They were formally originated during the privatization of the Italian banking industry, which began in 1990 with Law 218 (30 July 1990 - the so-called "Amato" law), which required the state-owned banks to transfer their banking operations to newly-formed joint-stock companies, and to turn themselves into foundations to pursue public interest, economic development and socially-oriented activities. Since 1998 these foundations have been recognized as *subjects expressive of social freedom*, according to their status of private organizations (Law 461 - 31 December 1998; Constitutional Courts ruling 330/2003). Nowadays, banking foundations can be grant-making (if they fund other organizations that operate in the statutory-fixed fields of social activity) or operative (if they directly or indirectly deliver services in the statutory-fixed fields of social activity). Grant-making activities, however, absorb the greatest part of financial resources in the banking foundations sector (ACRI, 2007) and the existing 88 banking foundations account for more than 80% of the total foundations financial assets (an impressive concentration considering that over 2,300 other grant-making foundations account for the remaining 20%).

Italian banking foundations, in cooperation with the funded NPOs, play an important role in the development of Italian civil society, and they have a role in local economic development, as it is widely recognized by the Italian legislation and the policy documents of all the regions (Provasi, 2004). *De facto*, they are private entities that pursue finalities of public interest, by raising new resources, designing new services and encouraging empowerment and participation. In this way, foundations and other non-profit organizations contribute, since their constitution, to the development of social capital (Coleman, 1988), triggering or reinforcing the best conditions for the economic performance of the Italian communities (Putnam, 1993).

Italian banking foundations, because of their banking background, are recognized as the most business oriented organizations in the NPOs multifaceted world and, accordingly, seem better organized to handle the emerging challenges, the so called "Third Sector" is facing all around the western societies. Among these challenges the most prominent are: a massive increase in the demand for private welfare services; the diversification of social needs; greater demands for transparency and accountability; a shift from philanthropy to sponsorship; and a shift from operating funds to project-based funding (Bug & Dallhoff, 2006). In order to cope with these unavoidable changes in the environment, Italian banking foundations, are currently internally debating their new organizational paradigms (ACRI, 2007) while many private and institutional players would like to assign them the emerging role of "social merchant banks" in order to further push their funding activities toward: innovative and advanced research and development (i.e. sponsoring academic spin-off and corporate research); the leadership in complex projects participated by many organizations (such as local master plans for the re-launch of specific territories); the planning of autonomous projects potentially replicable by other foundations for the main private welfare services (health assistance, private education, retirement housing, unemployment services, ecc.) as well as other economic development activities (such as the entrepreneurship competitions).

These challenges and proposals, however, imply foundations oriented toward the social value creation and managed by professional governing bodies (board of directors). The next section better highlights how literature examines the value creation and governance of foundations.

THEORETICAL BACKGROUND

Banking Foundations' Value Creation: the economic and social value provision

The grant-giving foundations share a commitment to creating value, with respect to a community and its needs. They create value when they are able to generate benefits that go beyond the amount of their grant, improving the performance of social enterprises, creating new knowledge, influencing public and private welfare. The Foundations' capability to create tangible and measurable value is commonly related to two major elements: the amount of resources invested in social projects and the level of strategic giving they are able to develop in cooperation with grantees, local stakeholders and funded NPOs (Porter and Kramer, 1999).

As far as the resources are concerned, despite of all differences Foundations are always identified with a separate, identifiable asset (the root meaning of fund, *fonds*) donated (the root of *stift*) to a particular purpose, usually public in nature (implying the root of philanthropy)" (Anheier, 2001). Thus, their first goal is to invest the fund in order to obtain a positive return that will be next invested in philanthropic projects in line with the Foundations' aims. The classical performance ratio always attached to grant giving foundations is the share of resources invested in the philanthropic activities over the total foundation revenues. The argument being that the largest is the share of resources invested in the projects, the greater the value transferred from Foundations to NPOs' services first (output) and to the social community's welfare next (outcome).

There are significant external forces pushing foundation leaders toward a greater emphasis on economic and social value. Critics point to the lost tax revenue from contributions to foundations and its operations and ask whether society is receiving the commensurate benefit to offset those loses. Some suggests that foundations are inappropriately protecting their endowments by spending at, or only slightly above, a minimum payout (CEP, 2002). Another critical issue is the growing cost of the foundations' operative office compared with the total resources available for the social services. As such, it seems fairly clear how both internally and externally it is becoming clearer the need for efficiently managed foundations able to invest great part of their annual revenues in effective social projects.

The effectiveness of the funded projects is currently associated with the second element of value creation, the level of strategic giving implemented by foundations. In Porter and Kramer' model (1999) grant-giving foundations are 'intermediaries between the individual donors and the social enterprise that they support' (Porter and Kramer, 1999:121) and the two authors identify four actions by means of which, grant-giving foundations can create greater value:

1) *Selecting the best grantees*: most of the foundations work through others (mainly NPOs and public entities) by giving grants. Relevant issues regard the criteria to select grantees and capability to improve the quality of the process and the value for end-user of the services;

2) *Signaling other funders*: due to the sharing of the same information, the results of each foundation affect others' selecting processes, enriching the overall quality of selecting the best grantees.

3) *Improving the performance of grant recipients*: aware of the structural weakness of many NPOs, the foundations have to be more engaged in building project capabilities of the beneficiaries, to improve their performance;

4) *Advancing the state of knowledge and practice*: foundations are expected to create a systematic progression of research, to produce more effective ways to solve or deal with social problems. This way, efficiency and effectiveness of "old" solutions can be strengthened.

All four actions can create value but there is a clear hierarchy of ascending impact. Each successive approach leverages a foundation's special assets – resource, expertise, independence and time horizon – more than the preceding one, as the focus of activity shifts from the individual recipient to the overall social sector.

This research shares the view that both the allocation of resources and the strategic giving are important value creation elements and, accordingly, they should be object of accurate planning by Foundations' governing boards. More specifically, the aim of this paper is to empirically test that foundations' governance has a positive influence on the value creation elements. In order to further proceed in this direction, the following sections isolates the governance elements that we believe can better contribute to value creation as measured by enhanced economic value provision (more resources invested in the social projects) and greater social value provision (strategic giving based on proactive relationships with funded NPOs).

Board of directors in NPOs

Governance issues relate to how, both internally and externally, polices, laws, institutions, customs affect the way an organization is directed, administered and controlled. Despite in business-oriented research corporate governance has imposed itself for several decades, in non-profit sector, governance has been a less investigated area of analysis (Murray et al., 1992). Nonetheless, NPOs pose even more complex problems of governance, since their internal bodies are typically required to answer (account) to their supporters, members, beneficiaries, employees, cooperating organizations and government agencies (Futter, 2002).

Considerable effort has been made on studying governing bodies in the business-oriented research (Hinna, De Nito and Mangia, 2010) presenting different theories as agency theory (Jensen and Meckling, 1976; Fama, 1980; Eisenhardt, 1989), stewardship theory (Donaldson and Davies, 1991; Muth and Donaldson, 1998), resource-dependence theory (Pfeffer and Salancik, 1978; Zahra and Pearce, 1989), managerial hegemony theory (Lorsch and MacIver, 1989), stakeholder theory (Freeman, 1984; Donaldson and Preston 1995), and institutional theory (Meyer and Rowan, 1977), respectively correlated to various board roles like control, strategic roles, linking, support, coordination, maintenance roles (Hung, 1998).

In short, three key functions of boards have been highlighted: (1) monitoring, which is related to the control over managers and the monitoring of the firm's performance in order to safeguard shareholders' interests (Fama and Jensen, 1983), (2) strategy, related to the revision and evaluation of strategic decisions and the provision of technical advice so as to improve the firm's strategic plans (Zahra and Pearce, 1989, Westphal and Stern, 2007), and (3) provision of resources, which consists of enabling key resources that may favour the survival and success of a company (Pfeffer, 1972).

Non-profit literature has discussed the applicability of these three key roles to NPOs. Notably, Cornforth (2003) identified six models of governance (Cornforth, 2003: 7-11). Behind each model, there is a specific relationship between a theoretical approach and the board's role:

- A compliance model, which - according to the agency theory (Eisenhardt, 1989; Jensen, Meckling, 1976; Ross, 1973) - defines the supervision of management activities as the main function of boards.
- A partnership model, based on stewardship theory (Donaldson, Davis, 1991; Muth, Donaldson, 1998), which leads to consider the relationship between management and board's members as collaborative. The primary task of the board is to provide support to managers in order to improve the performance of the organization.
- A co-optation model, which looks at the board as a major asset of the organization, because its members are considered – in line with the resource-dependency theory (Pfeffer, Salancik, 1978; Zahra, Pearce, 1989) – as bearers of resources and, therefore, as a support to the organization in pursuit of its goals.
- A democratic model, which defines the board as a representative body of the interests of one or more groups of constituents. The role of the board is to choose the appropriate policy to balance the interests of various constituents.
- A stakeholder model, based on the premise that the organization is accountable both to shareholders and to interest groups in society. The board task expectation is

to negotiate and resolve the potentially conflict of interest between different stakeholders, that legitimize the board itself.

- A 'rubber-stamp' model, where the main task of the board is to legitimize the actions of the management that actually directs and controls the organization, in line with the managerial hegemony theory (Berle, Means, 1932).

Although all the above mentioned models are plausible, there is a certain convergence of studies towards the 'partnership model' (Ostrower and Stone, 2006; Judge and Zeinthalm, 1992; Speckbacher, 2008; Kovner, 1990) and the 'democratic model' (Bradshaw et al, 2007; Carver, 1990, Houle, 1989, Fram and Pearce, 1992, Powell, 1995; Wright, 1992). In other words, the non-profit sector literature looks at the board's role mainly as a trustee on behalf of its communities and the boards need to ensure responsiveness to these stakeholders through the articulation of a clear vision and set of values.

Board of directors and value creation in banking foundations

Corporate governance research on board of directors has emphasized its potential contribution to the firm's value creation (Huse, 2007, 2009; McNulty and Pettigrew, 1999; Zahra and Pearce, 1989). Scholars move from the hypothesis that firm's value can be created by improving board effectiveness, which is concerned with how a board is meeting expectations about such value creation, and how actual board task performance compares with those expectations.

Differently from corporate governance debate (Huse, 2009), the board value creation is real pioneer field of research in public as in non profit sector organizations. Some authors have suggested that the innovativeness and effectiveness of NPOs could depend on the governance model adopted (Bradshaw, Hayday and Armstrong, 2007) and, in particular, on the boards' characteristics in terms of structure, composition or performance (Brown & Iverson, 2004; Herman and Renz, 2000; Becker, 1964; Miller-Millensen, 2003). However, this argument is not fully developed in the existing literature on the non-profit sector.

A reason for that could be find in the different aims pursued by organisations in the private and public or non profit sector and consequently to the complexity of measures related to the organization value creation. In the public and non profit sector a more articulated concept of 'value' must be considered (Moore, 1995; Moore and Hartley, 2008), introducing a problem of ambiguity concerning ends, means and measures.

A second reason of the recorded gap on studying the relationship between governance model and value creation in non profit organization (banking foundation included), could be found in the peculiarity of the topic, challenging hypothesis and frameworks usually adopted in the corporate governance research field. In fact, the major difference between corporate and nonprofit governance is the "absence" of the owners. While the stakeholders of a company can be structured in a hierarchical way starting with the financial capital owners, a likewise structure cannot be made for nonprofits (Speckbacher 2008). Usually, donors and beneficiaries of Foundations are not identical, but can both be understood as principals. The former may expect an efficient use of their donations (Fama and Jenson 1983). The latter know best how the nonprofits can serve them to get by in life. Furthermore, the relation between the board and the CEO is often mentioned as the most important governance relation. However, this relation in the non-profit is heavily influenced by the fact that it is often not easy to divide the tasks of both actors completely from each other because the tasks of leadership and control cannot be totally separated. The co-existence of donors, volunteers, beneficiaries and paid staff leads to a structural conflicts that is driven by interests, power, and prestige (Futter, 2002). Accordingly, only a talented governing leadership can mediate among these numerous legitimate interests by actively participating to the planning of the funding activities and by measuring the expected and actual performances.

The division of ownership and control is one of the major reasons of governance in corporations and the primary assumption of the agency theory (Berle and Means 1932). In the nonprofit, it is unclear if a total division is possible or not. But it is obvious that a clarification of competencies and accountabilities among different actors is an important factor for an efficient governance structure. Thus, effective non-profit governance relies on the information of the board, the need for co-operation, and the obligation to participate in the development of strategies (Bradshaw et al., 2007). In a grant-making foundation, the participation of the board in the development of strategies certainly requires a punctual supervision of the screening process. With this process, in fact, the foundation isolates among all the NPOs applying for funding, only those which, on the paper, provide the greatest chance to optimize the social outcome of the invested funds.

Non-profit governance value creation is thus related to selected value chain activities and it goes beyond measures of corporate financial performance. It includes a larger set of parameters – for example, innovation and development of resources, value for employees, value for the society, etc. In order to optimize the governance control over the value chain activities, the most common argument in literature is for a positive/negative effect of specific board members' characteristics on their individual ability to perform (in term of monitoring, strategic direction, and provision of relevant resources) and, indirectly, on the organizational board's outcomes (innovation, performance, etc.). All of the governance theories (agency theory, stewardship theory, resource dependence theory, etc.) share this underlying argument, although diverse characteristics of boards (size, diversity, skills, etc.) have been investigated and different kinds of effects have been hypothesized for each of them. Coherently, the governance attributes isolated by this research as key elements in the foundations' governance (leadership in the community and strategic control and managerial advice) can be more appropriately studied in term of specific characteristics of the boards' member sitting in the foundations' governing bodies. The following section presents our hypothesis on the relationship between board members' characteristics and the foundations' value creation.

HYPOTHESES

Foundations pose complex problems of governance (Futter, 2002). Non-profit sector literature looks at the board's role mainly as a trustee on behalf of its communities and the board needs to ensure responsiveness to these stakeholders through the articulation of clear vision and shared set of values.

Concerning the Italian banking foundation, board's role have been addressed by the institutive law and later implemented by each specific foundation statute. As a result, all the above mentioned classical governance functions (management monitoring, strategic planning and provision of key resources) are formally incorporated in the board roles of banking foundation.

This is an important starting point to set up some specific hypothesis on the relationship between board resource (such as knowledge, skills, experience, relationships, routines and procedures that boards) and the foundation's value creation. More specifically, the

Italian banking foundation sector is particularly adequate for analyzing the board impacts on organization performance, since both the two elements of value creation before mentioned (economic e social value provision) are strictly related to the board decisions and task expectations.
In this frame, the following paragraph describes how the main theories deal with the role of the board in banking foundation, and in particular with key attributes which are identified as fundamental for effectively exercising their role. The theoretical analysis aims at highlighting how the different theories associate some characteristics of the board members to the effectiveness of the board in terms of better organizational performance or better actions.

The Board members' profiles in banking foundations

In the specific context of banking foundation, according to some authors who have integrated the organizational control and agency theories in order to explain the board's role in strategy, boards assume a *strategic control* function (Baysinger, Hoskisson, 1990), with important implications regarding the board strategic involvement (Stiles, 2001; Hendry, Geoffrey Kiel, 2004).
Strategic control by boards could be problematic, because they normally lack expertise and have less access to information (Crozier 1963, Giddens, 1977, Stiles 2001; McNulty, Pettigrew, 1999) in comparison to the foundation management.
For that reason, as agency theory and the debate on corporate governance have shown, board composition and their system of information-gathering are likely to impact the ability of the board to effectively lead the strategic process and screen for the most appropriate grantee and recipients (Finkelstein, & Hambrick, 1996; Rutherford, & Buchholtz, 2007). Therefore, board members should be selected on the basis of their skills and contacts because skilled directors can improve the connection with critical external factors; reduce uncertainty and minimize external dependencies.
As suggested above, each director brings to the organization unique attributes. Hillman *et al.*, (2000) suggest that differences among directors are perhaps most visible in terms of their individual experience or occupational attributes. These differences reflect the heterogeneity of resources such as expertise, skill, information and the potential linkages to other external constituencies. The authors (Hillman *et al.*, 2000) developed taxonomy of four director profiles based on human capital experience. In this paper, taking account of the grant-giving foundations' peculiarities, only two categories have been employed. They are:
- *Business experts*: directors who are active or retired executives in other organizations and directors who serve on other large corporate boards. These directors bring expertise and knowledge to the organization as a result of their experience in decision making in other organizations. Therefore they may serve as sounding boards for executives, providing advice on internal operations and on strategy formulation.
- *Community influentials*: retired politicians, university or other institutional representatives, officers of social organizations, or other relevant stakeholders. The resources supplied by community influentials do not stem from direct experience in controlling other large organizations operating in similar environments, but rather from knowledge, experience and connections to community groups and organizations, such as social interest groups or movements, or other community constituencies that may impact or be impacted by the organization's operations and strategic choices.

The different profiles target different key functions of the organization governed and controlled by the board members. In the specific context of banking foundations those key functions have been previously defined as “leadership in the community” and “strategic control and managerial advice” in governing the grants’ allocation process. In matching the grants’ allocation process with the theoretical taxonomy of the board profiles the next section of this paper associates the presence of Community influentials in the boards of the Italian bank foundations with the establishment of positive stakeholder networks and, as such, with increased leadership in the community. Instead, the presence of Business experts is associated with increased capacity in terms of strategic control and managerial advice (i.e. better capacity to analyze the profile of the potential recipients, looking for the highest chance of maximising the social outcome of the grants distributed). Thus, the analysis of the board members’ profile seems to be an appropriate driver in order to investigate the value creation capacity of the Italian banking foundations.

Board profiles and value creation in Banking foundation

We have already discussed how boards can affect the economic and social value creation, but further arguments have to be provided on how each of the above mentioned board profiles could be related to our construct of economic and social value provision.

A fist point concerns the foundations’ need of returning to society a benefit commensurate to the tax privileged received. Non profit organizations are multi-stakeholders structures in managing and gaining legitimacy through public consensus (Conforth & Edwards, 1999). Around banking foundations different stakeholders have significant differences in expectations. Furthermore, the divergence and convergence of stakeholders’ expectations may provide an organization’s management with critical leverage in using boards for stakeholder management (Huse & Eide, 1996).

This leads to a political model (Conforth & Edwards, 1999) of the role of the board, as a means of: a) representing the interests of stakeholders that organizations serve; b) solving or choosing between the interests of different groups of stakeholders; c) setting the overall strategy of the organization, which can be implemented by administrators; d) holding staff to account for the implementation; d) being publicly accountable for the organization as a whole.

From this point of view, the presence of community influentials director profiles experience might represent a central requirement of board composition. Therefore, we aim at testing empirically the following hypotheses:

H1: There is a positive relationship between the presence of community influentials among board members and the Banking Foundations’ Value Creation as measured by economic provisions.

H2: There is a positive relationship between the presence of community influentials among board members and the Banking Foundations’ Value Creation as measured by social provisions.

A second point concerns the active participation of Foundations’ board member in the grants’ allocation process. Board members are requested to assume also internal strategic tasks, exerting a continuous process of formal and informal influence. The board might act as a protective buffer for the management against unjustifiable external interference. It can also, separately or at the same time, serve as a communication bridge between the management and stakeholder expectations The buffering and bridging capacity of a board can be crucial in: a) safeguarding and promoting the foundation autonomous existence and operation; b) thinking proactive rather than reactive with a long-term vision for the future of the organization; c) working closely with the managers in order to make informed decisions in the right allocation of resources and grants. In this frame, the presence of the Business experts director profiles experience might represent a central requirement of board composition. Therefore, we aim at testing empirically the following hypotheses:

H3: There is a positive relationship between the presence of *Business experts* among board members and the Banking Foundations' Value Creation as measured by economic provisions.

H4: There is a positive relationship between the presence of *Business experts* among board members and the Banking Foundations' Value Creation as measured by social provisions.

METHODS

Sample

Our study sample consists of 53 Italian banking foundations. The banking foundations "industry" is a suitable field to carry out our empirical investigation about value creation and boards for at least three reasons. First, the European relevance of this industry in terms of resources mobilized. Four Italian banking foundations (Compagnia di San Paolo, Fondazione Cariplo, Fondazione Monte dei Paschi di Siena and Fondazione Cassa di Risparmio di Torino) are among the Europe's top 15 spending foundations. Second, drawing the sample from a relative homogeneous industry and from a single country (Italy) reduces biases associated with differences in the regulatory, economic and social environment. Third, information on social and economic provision and boards was readily available. Information has been collected mainly from annual reports that are mandatory and that encompass not only financial information but also other information about mission, strategies, policies and any relevant action undertaken by the foundation during the year.
Based on the most recent statistics published by the Association of Italian banking foundations (ACRI, 2009), our specific target population of banking foundations consists of about 88 units in Italy. All data needed for our analysis was available for 53 organizations. As it can be observed from Tab. 1, the sample mirrors quite well the investigated population.

Table 1 -Distribution of the Italian Banking Foundations by size and geographical area

	Small foundations		*Medium-small foundations*		*Medium foundations*		*Medium-large foundations*		*Large foundations*		*Total*		*%*	
	N	n	N	n	N	n	N	n	N	n	N	n	N	n
Nord West	4	3	1	1	3	2	4	2	5	5	17	13	19%	24%
Nord East	5	3	5	3	6	3	7	2	7	6	30	17	34%	32%
Central Italy	7	4	6	3	8	3	4	5	5	4	30	19	34%	36%
Southern Italy	2	2	5	0	1	0	2	1	1	1	11	4	13%	8%
Total	18	12	17	7	18	8	17	10	18	16	88	53	100%	100%
%	20%	23%	19%	13%	20%	15%	19%	19%	20%	30%	100%	100%		

N= Italian Banking Foundations population
N= our sample

Source: our adaptation from data provided by ACRI

Variables

Dependent variables. We specified two dependent variables in order to measure respectively the social and the economic value provision of the banking foundations (i.e the two identified components of value creation).

- *Social value provision (SVP)*: the measurement of the social value provision has been based on the aforementioned Porter and Kramer model. This model specifies four actions by which foundations can create social value. These are ordered in terms of ascending impact: 1) selecting the best grantees; 2) signaling other funders; 3) improving the performance of grants recipients; 4) advancing the state of knowledge and practice. In order to test the ability of our approach to capture the social value provision of the banking foundations industry, we interviewed six experts of the sector (2 researchers active in the field; 2 board members and 2 managers of two different banking foundations). They confirmed our approach and also provided some specific criteria in order to collect information.
  Therefore, we measured the social value provision through a summative variable consisting of the adoption by each foundation of these four actions. Higher scores indicate higher impact on the grants recipients and on the overall social sector.
- *Economic Value Provision (EVP)*: the measurement of the economic value tries to specify which part of revenues and gains of a banking foundation are invested in the social activities encapsulated in its organizational mission. According to the industry-specific studies carried out by ACRI, banking foundations can increase or reduce the economic value provided to the community respectively by reducing or increasing their operating costs. Therefore, a good measure of the economic value provision is the ratio of operating costs on total revenues and gains or, at reverse, the surplus on total revenues and gains.
  Therefore, we measured the economic value provision as year’s surplus divided by total revenues and gains. We employed the average value for the last three fiscal years (2005-2007).

Independent variables. Considering the research aims and the state-of-art of the literature, two independent variables have been identified:

- *Business experts (BUSINESS_EXP)*. Following the guidelines provided by Hillman et al. (2000), we indentified director characteristics based primarily on occupation. Business experts are directors who are or have been both directors and executives in other organizations. We calculated the average percentage of business experts on the total number of board members, for the last three fiscal years (2005-2007);
- *Community influentials (COMMUNITY_*INFL). The support specialists group is formed by retired politicians, university or other institutional representatives, officers of social organizations, or other relevant stakeholders. We calculated the average percentage of community influentials on the total number of board members, in the last three fiscal years (2005-2007).

Control variables. The control variables have been identified on the basis of the existing literature both on innovation (Mohr, 1969; Hage and Aiken 1970) and boards (Goodstein *et al.* 1994, Gani & Jermias 2006; Kramer 1985; Callen, Klein & Tinkelman, 2003). We also considered literature on non-profit management and governance (Guo and Brown 2006; Tinkelman 1996) and sectoral studies carried out by the ACRI (ACRI, 2009).
Control variables have been operationalized by making the following choices:

- *Board size (BSIZE)*. We determined the average number of directors listed as active members on the board of directors (Pfeffer 1983; Yermack 1996; Oster, 1995)) in the last three fiscal years (2005-2007);
- *Board gender diversity (BDIVERSITY)*. We developed a measure of board diversity that reflects the average percentage of women on the total number of board members (Brown, and Anastasopoulos 2002; Westphal and Milton, 2000; Siri et al, 2009), for the last three fiscal years (2005-2007);
- *Organizational size (ORGSIZE)*. The present study employs as a measure of the organization size the natural log of a given foundation's average asset size (Guo and Brown 2006) for the last three fiscal years (2005-2007);
- *The Return on the Foundations' Net Assets (ROFNA).* In the business sector literature on boards, financial profitability is measured typically by accounting/financial variables, such as return on assets, return on equity, variations on Tobin's Q ratio, net earnings, and growth in sales (Hutchinson and Gul, 2004). However, banking foundations invest their big assets in order to generate a profit that can be used to finance the grants. Thus, on the Foundations' Net Assets, although doesn't give an appropriate measure of the overall performance, could measure the ability of a banking foundation to get the financial resources needed to fulfill its mission. This measure is usually employed in sectoral statistics carried out by ACRI. Therefore, we use the Return on the Foundations' Net Assets (ROFNA) measured as the ratio of ordinary revenues and gains, net of withholding taxes, to the book value of net assets. The average value for the last three fiscal years (2005-2007) has been used.
- *Geographical location (GEOLOC)*. We referred to the geographical location of the banking foundations, distinguishing three territorial areas: Northern, Central and Southern Italy. It is worth recalling that in Italy these territorial areas are very differentiated and heterogeneous in terms of socio-economic development, demographic makeup and the occupational situation of the population, the traditions and the dominating cultures, the historical evolution of management systems and mechanisms. Therefore we controlled for geographical location

including a dummy variable with the value of 1 indicating the banking foundation is located in Northern Italy (the most developed area in the country) and the value of 0 indicating an alternative location.

Table 2 synthesizes the main characteristics of the variables used in the analysis.

Table 2 -Main characteristics of the variables used in the analysis

Variables		Label	Type of variable	Year	Source
Dependent	Social value provision	SVP	Continuous	2005-2007	Original database developed
	Economic value provision	EVP	Continuous	2005-2007	Annual reports
Independent	Business expert	BUSINESS_EXP	Continuous	2005-2007	Original database developed
	Community influentials	COMMUNITY_INFL	Continuous	2005-2007	Original database developed
Control	Board size	BSIZE	Continuous	2005-2007	Annual reports
	Board gender diversity	BDIVERSITY	Continuous	2005-2007	Annual reports
	Organizational size	ORGSIZE	Continuous	2005-2007	Annual reports
	Return on the Foundations' Net Assets	ROFNA	Continuous	2005-2007	Annual reports
	Geographical location	GEOLOC	Continuous	2005-2007	Annual reports

Data collection and analysis

Data were obtained from two main sources.
A first source of data has been the annual reports published by each banking foundation during the last three fiscal years (2005-2007). Banking foundations' annual reports are mandatory and encompass not only financial information but also wide information about mission, strategies, policies, board members, any relevant action undertaken by the foundation during the year and also financial information. In all, 159 annual reports have been analyzed. Therefore, through this source it has been possible to obtain important data on the economic value provision (dependent variable) and on all control variables.
The second source of data has been a new database originally developed by our research team. This database contains: a) information about the social value provision (dependent variable); b) all the data needed for the classification of directors into our categories (i.e. business experts and community influentials). Data were collected through a three-stage process. We first carried out an in-depth research into annual reports (especially to gather information about the actions indicated in Porter and Kramer model), general and specific search engines, electronic database, national and local press, economic magazines, etc. In this way we collected a rich set of records about the activities undertaken by our sample of 53 banking foundations and the profiles

of more than 500 directors. These data refer to the last three fiscal years (2005-2007). In the second phase, we classified the actions undertaken by foundations according to the Porter and Kramer model, and placed each director into one of the two indentified profiles categories (business expert or community influential). All these classifications have been made by one of the authors and a second researcher not involved in the study. The two resolved the small number of differences in coding by a subsequent discussion. Classification was very straightforward, and followed the guidelines provided by Hillman et al. (2000). In the third phase, a survey questionnaire was developed. Two copies of the questionnaire were mailed to the CEO and chairman of the board of directors of all Italian banking foundations. Out of the 88 banking foundations contacted, we received responses from 17 banks, of which 15 responses were complete and usable (a response rate of 17%). In this questionnaire we asked to the CEO and to the Board Chairman: a) to specify whether the identified actions have been undertaken by the foundation; b) to classify the board members of their foundation into the above-mentioned categories. We registered a high agreement in the classification between the CEO and the Board Chairman (on average 80% for actions indicated in the Porter and Kramer model and 90% for board members' profiles). We also found a similar agreement with our own classification (on average 73% for actions indicated in the Porter and Kramer model and 85% for board members' profiles).
In order to test our hypotheses we used both bivariate and multivariate statistical methods. A bivariate statistical analysis has been performed using parametric techniques (Pearson's r). Then, a multivariate analysis has been carried out by mean of the ordinary least squares (OLS) regression technique.

RESULTS

Descriptive statistics appear in Table 3.

Table 3 - Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Dev-
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
SVP	53	1,00	4,00	2,4340	,09901	,72083
EVP	53	,50	,97	,8425	,01163	,08465
BUSINESS_EXP	53	,000	,500	,11985	,020131	,146556
COMMUNITY_INFL	53	,200	1,000	,66208	,029062	,211577
BSIZE	53	3,00	11,00	6,8943	,26100	1,90014
BDIVERSITY	53	,00	,33	,0656	,01211	,08813
ORGSIZE	53	6,66	9,86	8,3625	,09442	,68742
ROFNA	53	,04	,15	,0633	,00339	,02465
GEOLOC	53	,00	1,00	,5660	,06873	,50036
Valid N (listwise)	53					

The bivariate correlation analysis (Table 4) points to a statistically significant ($p<0,001$) and relevant positive correlation (Pearson's $r = +0,778$) between the Social Value Provision (SVP) and the percentage of business experts in the board. The percentage of business experts in the board is also significantly correlated (Pearson's $r = + 0,302$; $p<0,05$) to the Economic Value Provision (EVP).
On the contrary, the percentage of community influentials in the board is negatively correlated both to economic and to social value provision, although the relation is

statistically significant only in the case of the social value provision (Pearson's r = -413; p<0,01).
Moreover, the analysis highlights that the organizational size (log assets) is significantly correlated to almost all other variable.
It is worth to note that the two dependent variables measuring value creation (i.e. economic and social value provision) are significantly correlated (Pearson's r = + 0,316; p<0,05).
Therefore, the bivariate correlation analysis offers a result compatible with two (Hp 3 and 4) of the four hypotheses that have been formulated. No support has been found for the other two hypotheses (Hp 1 and 2). Interestingly, the relationship between the Social Value Provision and the percentage of community influentials in the board is statistically significant but the relationship goes on the opposite direction to that hypothesized.

Table 4 -Correlations (Pearson' s r)

	1	2	3	4	5	6	7	8
1. SVP								
2. EVP	**,316(*)**							
3. BUSINESS_EXP	**,778(***)**	**,302(*)**						
4. COMMUNITY_INFL	**-,413(**)**	-,220	**-,485(***)**					
5. BSIZE	,144	**,431(**)**	,219	,045				
6. BDIVERSITY	-,147	-,062	-,032	-,114	-,119			
7. ORGSIZE	**,566(***)**	**,439(**)**	**,624(***)**	**-,300(*)**	**,321(*)**	-,061		
8. ROFNA	,017	**,387(**)**	-,062	,123	,230	,211	,145	
9. GEOLOC	,106	,216	,041	,180	,092	-,027	,186	**,458(**)**

*** Correlation is significant at the 0.001 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

A multivariate analysis has been carried out by mean of the ordinary least squares (OLS) regression technique. In this way, it was possible understanding the effects of selected board characteristics (independent variables) on the social and economic value provision (dependent variables), keeping the action of the other variables under control.
In order to test our hypotheses we specified two different models (Model 1 and 2). The models are identical in terms of independent variables (business experts and community influentials on the board) and control variables (board size, board diversity, organizational size, the return on investment and the territorial context). They differ only for the dependent the dependent variable: the Social Value Provision in Model 1 and the Economic Value Provision in the Model 2.

Tab 5 - Multiple Regression Results (standardized coefficients) of Models 1 and 2

	Model 1 (SVP)	Model 2 (EVP)
Variables	b	b
BUSINESS_EXP	**,689 *** **	,017
COMMUNITY_INFL	-,077	-,220
BSIZE	-,081	**,278 (*)**
BDIVERSITY	-,155	-,109
ORGSIZE	,109	,212
ROFNA	,090	**,326 (*)**
GEOLOC	,033	,038
Adjusted R^2	*0,591*	*0,315*
Model F- statistic (p-value)	***11,743 (***)***	***4,418 (**)***

****** Correlation is significant at the 0.001 level (2-tailed); ** Correlation is significant at the 0.01 level (2-tailed);***
**** Correlation is significant at the 0.05 level (2-tailed).***

Table 5 presents the results of the ordinary least squares (OLS) regression analysis.
Both models are statistically significant, although the Model 1 has a more explanatory power. However, the results support only Hypothesis 4: there is a positive relationship between the presence of Business experts among board members and the Banking Foundations' Value Creation as measured by social provisions.
We did not find empirical support for the other Hypotheses (Hp 1,2 and 3).

DISCUSSION AND CONCLUSION

Compared with the wider debate on corporate governance, literature concerning the micro-level governance of non profit organisations is traditionally prescriptive in nature, without being empirically grounded (Cornforth, 1995, 2003).
The few empirical studies already provided in the non profit governance research follow a case study methodological approach (Cornforth and Edwards, 1999), usually referring to organization directly engaged in the provision of social services (e.g. voluntary organizations), while charitable foundations governance is a neglected are of empirical research, even though their relevant role in funding non-profit sector and leading social progress (Porter and Kramer, 1999; Corkery and Wettenhall, 1990).
Moving from this backdrop, this paper aimed to provide some new insights for the debate of both the foundation governance and the foundation value creation. The paper quantitatively investigates if and how board members profiles positively affect the economic and social value provision in Italian grant-giving banking foundations. Two main relationships have being empirically tested: 1) the relationship between the presence of community influentials profiles among board members and the foundations' value creation; 2) the relationship between the presence of Business experts profiles among board members and the foundations' value creation. The findings bring some mixed results about the influence of board composition on foundations' value creation. While a growing of business expert profiles lead to higher social provision (as defined by Porter and Kramer, 1999) no relationship was found for the community leadership influence on strategic social giving. Furthermore, nor community leaders neither business expert profiles in the board seem related to higher economic provision (as measured by the part of revenues and gains of a banking foundation invested in social activities).
For the Italian most relevant grant-giving foundations, the study shows how the presence of community influential members is not driving the adoption of decisions and actions able to foster economic and social value creation. This result, speculating on possible explanations, could be related to a "stakeholder governance model". The national law, in fact, allows regional and local authorities to appoint their members in the foundations' board of governors in order to make banking foundations more accountable to the community of stakeholders, especially because of their particular origin (privatization of state-owned banks) and their use of public resources. In line with a stakeholder governance model, the board task expectation is to negotiate and resolve the potentially conflict of interest between the different stakeholders that legitimize the board itself (Cornforth, 2003: 7-11). Accordingly, in such "political model of board role", members are not selected to ensure one or more of the proactive actions here proposed for enhanced value creation.
The focus of the paper, indeed, was to discuss how boards can affect the adoption of actions for value creation. With reference to grant-giving foundations, results show that there is a significant and positive relationship between the presence of business experts

among board members and the Banking foundations' social value creation. This is consistent with the "partnership governance model", which is based on stewardship theory (Donaldson, Davis, 1991; Muth, Donaldson, 1998). In this model, the primary task of the board is to provide support to managers in order to improve the performance of the organization. Given the specific operative activities carried on by grant-giving foundations, we assumed that this managerial support was related to the business expert capability to better screen among projects and grantees looking for the maximum social outcome of the invested money. Further research could build on this first positive evidence and better detail the value creation tasks carried on by the business experts in the foundations' boards.

Board members selected for their specific business knowledge and expertise are more likely to: work with managers; improve the strategies and add value to top decisions and managerial practices. As confirmed by our empirical result, the actions by which the grant-making foundations maximize their social value leverage some organization special assets or resources and, among these, board member knowledge assumes a specific relevance.

According to our results, a tension between representative and professional boards arises in the debate concerning governance board composition in banking foundation and their future role of "social merchant bank": while the board of director is expected to assume a proactive role in foundations' future strategies, the board members might be both: a) stakeholder representativeness appointed to negotiate and solve potential conflict of interests and; b) knowledge providers selected to support the foundation's management and to generate benefits that go beyond the amount of their grant, improving the performance of social enterprises, creating new knowledge, influencing public and private sector institution and performances (Porter and Kramer, 1999).

This tension leads to a governance paradox which has been already highlighted in the non profit governance debate (Cornforth, 2003) and seems particularly relevant in the specific context of banking foundation. Italian banking foundation are rich in community influential board profiles appointed by local authorities and they risk to be less free from political pressure and less independent from the institutional context in which they operate comparing with other private charitable foundations. Therefore, boards in banking foundations, more than in classical charitable foundations, face the tension between the veto posed by different stakeholder interests and, at the same time, the need to foster the strategic actions for higher value creation. This tension can be better managed by boards that find the right balance among members' profiles, in response to the different tasks and interests they have to face. In a balanced board, in fact, the community influentials members are called, as well as the others, to play a more active and strategic role in establishing the social networks on which the money distributed and invested by the foundations can generate the highest social outcome. From this point of view, the results showed in this paper call for future contingency studies on board effectiveness in non profit organization, focusing on boards' roles, profiles, tasks, power and controlling for the organizational contextual environment.

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