Chapter 1
Italian Bank Foundations and Governance

1.1 Introduction

In the broader field of Italian nonprofit organizations, bank foundations have assumed significance in terms of the sizes of both their assets (€42,183 million as of December 31, 2012) and their grants (€965.8 million as of the same date) (ACRI 2013). Their nature as nonprofit organizations derives from the law. Under the law, bank foundations have been charged with the exclusive purpose of promoting social and economic development in a territory, beyond a profit-making intent.

Their emergence implies the need to better understand the identity of these organizations that implement a principle of horizontal subsidiarity, cooperating with public and private entities especially in the fields of art, culture, health, and social assistance. The study of Italian bank foundations can contribute to the resolution of some of the main challenges facing nonprofit organizations.

Bank foundations belong to the broader typology of foundations, defined as nonprofit groups with their own income and governing boards that use their financial resources for public benefit (European Foundation Centre 2003, 2005).

Within the nonprofit sector, foundations have some functions that are typical of nonprofit organizations, such as a serving as a substitute for the state's functions and redistributing primarily economic resources. Along with these more traditional aspects, the unique presence of income that is self-supported by assets, a system of self-governance, and donor control allows foundations to play a key role in promoting innovation and social development (Andrews 1956; Anheier 2005).

Although foundations are important to the nonprofit sector, few studies specifically consider their governance (De Andrés-Alonso et al. 2009). So that foundations do not remain "black boxes" (Diaz 1996), a thorough examination of their governance mechanisms is necessary. Some authors (Drucker 1990; Anheier 2005) have highlighted the notion that foundations, like any other nonprofit organization, have a greater need for good governance than do for-profit organizations.

The presence of different components (Handy 1990), practices, objectives, motivations, and preferences that must be brought together through the governance

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structure reveals a growing complexity—which Anheier (2005, p. 229) defines as the "law of nonprofit complexity"—in governing and managing foundations.

The aim of the current work is to address this lack of research. Focusing in particular on Italian bank foundations, this book describes a model of governance that is coherent with the presence of relevant assets that must be used for public purposes.

This analysis of Italian bank foundations' governance uses a normative approach. In accordance with this approach, the board is identified as the body in charge with the formal authority to make decisions about mission and strategy. Consistent with rational strategic planning principles, the board states the foundation's strategy, while management implements it through actions. The study of Italian bank foundations provides a perspective on governance that can help overcome the rigidity that characterizes the typical governance model of nonprofit organizations, providing the presence of a body that acts as a link between strategic and executive functions.

The good governance of bank foundations implies that it is coherent with the specific characteristics of this type of nonprofit organization—that is, asset based and with a public purpose. A proper governance structure does not ensure per se that a foundation's mission and strategies are pursued (Hudson 1999). To that end, it is necessary to monitor, using an analytic approach, the way a board actually decides, manages, and controls the organization's activity (Middleton 1987; Ostrower and Stone 2006).

1.2 A Particular Kind of Nonprofit Organization

Foundations are a specific kind of nonprofit organization. According to the structural–operational definition provided by Salamon and Anheier (1992), an organization is defined as a nonprofit institution when it has five characteristics:

- *Organized*: It is institutionalized to some extent.
- *Private*: It is institutionally separate from government.
- *Self-governing*: It is equipped to control its own activities.
- *Not profit distributing*: It does not return profit to owners or directors.
- *Voluntary*: It involves some meaningful degree of voluntary participation.

Foundations possess such characteristics, but at the same time, they have some unique features that differentiate them from other nonprofit organizations. As Anheier (2005) notes, they are asset-based entities, created and managed for a public purpose.

Foundations derive from the transfer of assets belonging to a person or an organization to an independent entity (the foundation). The result is a nonprofit organization that manages such assets and uses the income derived from asset management for social purposes.

The choice to create a new organization, rather than give assets to a nonprofit organization already in existence, can be motivated by various reasons. As the following list shows, within prior literature, it is typical to distinguish among value-based motivations, instrumental motivations, peer pressure, and selfish motives (Anheier 2005, p. 320).

Value-based motivations

– Concern for the welfare of others, social responsibility
– Religious heritage
– Desire to repay society
– Political beliefs
– Concern with particular activities or issues
– Commitment to a specific geographical community

Instrumental motivations

– Flexibility of foundation compared with other charitable options
– Tax incentives
– Establishing a vehicle for the systematic conduct of philanthropic giving
– Memorial/dynastic motives
– Family tradition of charitable activities
– Desire to create a memorial to self
– Desire to create a family institution
– Lack of heirs

Peer pressure

– Social pressures from peers
– Fashion

Selfish motives

– Maintaining some form of control over assets
– Personal satisfaction of creating a foundation

Italian bank foundations share in their substance the common idea of foundations. They represent identifiable assets donated to a particular purpose, usually philanthropic and public in nature (Anheier 2001). Many features of bank foundations align with those that distinguish foundations in general (Anheier 2001).

Bank foundations are neither membership-based nor owner-based organizations. They are characterized by an internal organizational structure, stable funds, and assets.

Bank foundations have a nearly permanent identity and purpose based on an original deed represented by a statute. This basis establishes their purposes, organizational structures, and activities to carry out.

Bank foundations are separate from government or public agencies. They often promote and implement initiatives together with the government and other public agencies. However, they are private and, as such, are not directly controlled by the government and are structurally separate from public agencies.

Bank foundations govern themselves. They are autonomous entities equipped to control their own activities; they have their own internal governance procedures and a separate set of accounts.

Bank foundations are not profit-distributing entities, and they do not operate on the basis of profit-oriented motivations. By provision of the law, any surplus of revenue must be applied to its social mission.

Bank foundations serve a public purpose. They do not serve the needs of a narrow social group but instead use their financial resources for public benefit.

There are also a few unique differences specific to Italian bank foundations compared with foundations in general. One of the main differences is their historical origin. Bank foundations derived from rapid recent developments following autocratic experience (Anheier 2001). They were not founded by an individual, group of individuals, family, or company bringing private assets into the foundation. Instead, they arose simultaneously in the 1990s by law, relying on assets obtained from public savings banks rather than donations or fundraisers.

The law dictates their social purpose and prescribes their mission, and as such, these aspects of the foundation are not voluntary in nature. The law states that bank foundations must pursue exclusively socially oriented aims and promote economic development in accordance with their individual statutes. Each bank foundation can then choose the sectors in which to carry out its activities among those permitted by law.

As private entities that perform on behalf of the public interest (Amorosino 2009), they are legally constrained in terms of the use of their assets and the resulting incomes (Sala 2010). The operating surplus has to be partially allocated to reserves. The remainder must be assigned to the institutional activity that can take place only in a list of permitted sectors.

1.3 Governance in Bank Foundations

Governance is the system of relations among the board, management, and auditors, and it defines the way organizations are directed and managed to accomplish their mission and objectives. The distribution of rights and responsibilities among different entities in the organization, such as the board, managers, and stakeholders, and the rules and procedures of decision making constitute the elements of the governance structure (Anheier 2005).

Nonprofit governance is highly diverse due to the wide differences among nonprofit organizations in terms of mission and sources on which they depend (Young 2011). A good governance needs to fit the specific characteristics of the organization. In this sense, Anheier (2005) observes that the number of bottom lines in a nonprofit organization will change in relation to its mission, objectives, task environment, organizational structure, and the number of stakeholders.

A bottom line that is relevant in talking about bank foundations' governance is that regarding the dual governance–management structure (Anheier 2005). The dual governance model separates the board from management within a nonprofit organization. The board is in charge of laying out the mission, defining objectives and strategies, and developing programs, while management provides an executive function (Middleton 1987) and focuses on operational aspects and financial matters in running the organization (Anheier 2005).

Prior literature has highlighted that the balance of power between board and management is affected by three type of variables: individual (e.g., gender, prestige of board members), organizational (e.g., size, age), and environmental (e.g., organizational financial dependence on board members, stability, governmental funding) (Ostrower and Stone 2006).

Pointer and Orlikoff (2002) emphasize that the most important decision about governance that the board assumes is where to draw the boundary between board and management work, to avoid the perception that the board has abdicated its responsibilities. Such responsibilities consist of defining the objectives to be pursued and verifying the results achieved. In contrast, management is in charge of carrying out the operations through which the programs put forth by the board can be realized.

The foundation's governance structure derives its impetus from the need to use assets assigned by the owner for public purposes. The relationship between the owner (or donor) and the board is defined by the mission given to the foundation and the assets assigned to the organization. The board is responsible for setting objectives, strategies, and programs in line with achieving a social purpose. The relationship between board and management then is depicted by a dual governance model. Specifically, management is responsible for the proper use of assets within the programs defined by the board.

Italian bank foundations differ somewhat from this model due to their particular nature. While the dual model provides for a deep separation between the board, which determines strategic functions, and management, which executes the actions, the governance structure of Italian bank foundations is more articulated (Fig. 1.1).

As Fig. 1.1 shows, there are two boards with different but complementary functions in a bank foundation. The Board of Trustees represents the body in charge of the foundation's direction and strategic function. It is responsible for defining objectives, strategies, and long-term programs in the exclusive interest of the territory in which the foundation operates. The Board of Directors is in charge of the administrative function, and it is responsible for implementing the bank foundation's strategy. The Board of Directors is appointed by the Board of Trustees, but it is not a mere executor of its guidelines. The Board of Directors has the more complex duty of translating the long-term programs into short-term plans of action for management to implement at the operational level. In addition, the Board of Directors can formulate proposals to the Board of Trustees.

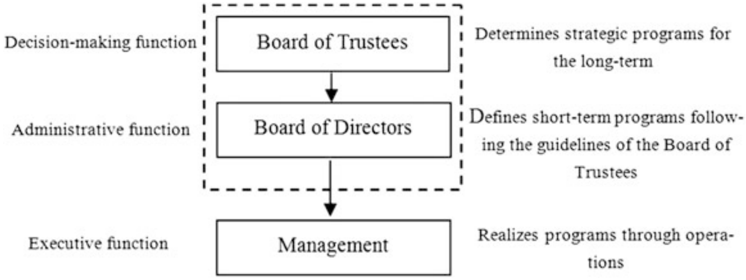

Fig. 1.1 Governance structure model for Italian bank foundations

Therefore, the Board of Directors, through the definition of short-term programs, completes the strategic planning activity designed by the Board of Trustees. In this way, it embodies a connection between the policy-making body and management, allowing the foundation to overcome one of the main criticisms of the dual governance model for nonprofit organizations.

As a result of the presence of two boards, the Board of Trustees has many components and can represent a significant part of the interests that insist on the bank foundation. In this regard, literature highlights that the board does not represent the ownership that transferred the assets to the organization. Rather, it is a body that represents the foundation and is responsible for identifying and meeting the needs of the territory in which it operates (Anheier 2005; DuBois et al. 2009). As Gill (2005, p. 24) argues, the board must "represent the organization and its programs positively to key stakeholders and the community at large."

The Board of Trustees therefore plays a key role in the relationship between the foundation and its stakeholders. Thus, it is important that the organization adopts a multistakeholder approach in choosing the members of its governance bodies.

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