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Italian Bank Foundations:

a challenge of management sustainable in Not For profit Organizations

abstract

Italian bank Foundations are a particular type of not for profit organization, not only in Italy, but in the world. They have a specific structure of balance sheet, especially because of the presence of mission balance sheet, a synthesis document of foundation's activity. The aim of this paper is to identify the larger criticality of mission balance sheet analysis of Italian bank foundations, allowing.

This criticality that are a challenge to improve the sustainability of Italian bank foundations management, in terms of evaluation of strategies adopted for the long run and tactics for the current activities.

1. Introduction

From several years the Italian bank foundations draw up an annual mission balance sheet, which give no detailed account of their institutional activities, in particular the delivery of contributions to the third sector. With this paper we sight to develop a format for mission balance sheet analysis of Italian bank foundations, allowing identify the larger criticality.

This criticality that are a challenge to improve the sustainability of Italian bank foundations management, in terms of evaluation of strategies adopted for the long run and tactics for the current activities.

After the literature review and the set up of method utilized (section no. 2), we show the historical background and also the not for profit side of bank foundations (section no. 3). Focusing the analysis on the mission balance sheet (section no. 4) and the allocation of the foundations' assets (section no. 5), and developing some reflections on the ethic code (section no. 6), we concludes by identifying critical issues and areas for improvement of the mission balance sheet (section no. 7).

2. Literature review and set up of the research

We can divide the literature on bank foundations on several lines of research.

The first strand concerns the purely legal aspects of these organisms. The studies explored the emergence and nature of the foundations (Cassese 1991, Rampulla F.C. and Maruzza L. 1993, Cuocolo F. 1993). Merusi (Bank Foundatins between the public and private contributions and proposals, ACRI conference, Rome, 31 January 1995) supports the view that, once dismantled, investments held in banks, institutions which confer become foundations of private law in all respects. The discussions were just fine with the law no. 153/1999, which ruled once and for all the private foundations (Amorosino S. and Capriglione F, 1999, Nuzzo 2000).

The second strand of studies on Foundations regards their economic and financial nature. The 1999 law said the framework for a clearer governance of foundations, seeking to distinguish the bodies according to the historical foundations (Bompani 2000, Bottiglia 2003). And specified modes of investment of the assets and the criteria by which grant donations (Catelani 2005). In this second strand includes studies on the management and budget of the foundations on which this paper aims to reconnect.

The first to address the foundations of accounting is Bompani (2000), which is an accurate and timely examination of the documents making up the balance sheet of the banking foundations. In the same direction as the study of Milone (2002) and Alberti (2002). Besides these contributions, considered the not for profit side of bank foundations, you can refer to the literature on social reporting and its application to the foundations themselves. Initially proposed by some researches in accounting (Hinna 1996 The systems of representation and control of activities: a budget proposal for the institutions which confer, in First Report on the bank foundations; Bruni 1997 The budget of the mission of the companies do not profit in Italian Journal of accountancy and business economics, May-June), and then adopted by Decree of the Ministry of Treasury, 19 April 2001, as an official document to be drawn up by the bank foundations. Always Hinna (2002) studies the function of mission balance sheet as an instrument, not only for measure the performance, but also for to implement governance and management of bank foundations. In more recent times has developed an interesting line of study specifically on the budget of the foundations of mission, where we recall Santi (2005), that studies the path from multi-dimensional control to social reporting.

To develop the present work we have used the methodology described below.

Was initially identified a sample sufficiently significant of the Italian bank foundations world. In this direction have been selected the top five foundations for assets (covering approximately 60% of total assets under propriety of foundations). For each selected foundation was critically analyzing the mission balance sheet of the last three years (2006, 2007, 2008 if available): in support of the survey, was drafted conduct an interpretive grid to facilitate comparison of data and especially the mode of exposure them.

As expected results is identify the best practice for drafting the mission balance sheet and related areas for improvement: improve the measurement of results (for all stakeholders) to improve the performances in long and in short term.

3. Historical background and actual not for profit side of Bank Foundations

Bank foundations are quite recent and are a real phenomenon within the Italian credit system¹. Indeed, they date back to 1990, when a law² aimed at restructuring and adapting the Italian credit system to the changed economic environment was set forth. By virtue of this law and its implement provisions, tax incentives were provided to reorganize savings banks and State-Owned Banks, which, until then, had been operating in the short-term sector owing to the sector-based specialization imposed by the 1936-38 banking law in force at that time; this was achieved by conferring the banking concern to a joint-stock company previously or newly set up and by awarding its shareholdings, as well as all the powers not ascribable to the bank, to another entity expressly established and named “conferring entity”.

During this transaction, two entities with different tasks were created: a banking concern operating as a credit institution and an entity controlling one hundred per cent of the banking concern, with charitable aims and financing non-profit initiatives. This allowed the privatization of the banking system by transforming banks into joint-stock companies, but did not neglect gifts to the third sector and in support of the less privileged classes, which have always been among the institutional tasks of savings banks.

The legislator conceived the idea of splitting or halving those entities which had always been a single entity³ in order to make the two tasks that independent savings banks had always carried out. The legislative decree 356/90 came up with this idea on the basis of a delegated law; two separate entities were then created and entrusted with specific tasks: on the one hand, the banking concern, aimed at achieving adequate profitability through credit facilities and, on the other hand, the conferring entity, aimed at financing non-profit projects through profits.

According to article 2 of the legislative decree no. 153/1999, the bank foundations are “*legal persons private non-profit organization*”, with full autonomy and statutory management, pursuing only objectives of a social and economic development. The same legislative decree, having stressed that the institutional

¹ On the bank foundations’ history you can see E.F.M. EMMANUELE, *Evoluzione e vicende delle Fondazioni di origine bancaria*, Edizioni Scientifiche Italiane, Torino, 2004, E. CATELANI, *Il futuro delle fondazioni bancarie tra holding di partecipazioni creditizie ed elargizioni al terzo settore*, Franco Angeli, Milano, 2005.

² It is the delegated law No. 218 of July 30th 1990; the implement provisions mentioned hereinabove are the Decrees Nos. 356, 357 and 358 of November 20th 1990.

³ Bank foundations are a special *genus* of institutional foundations; these will be given more extended treatment hereinafter.

activity of bank foundations takes place just inside a list of “admitted sectors”⁴ which, in the prevailing relationship with the land, finds the mechanism by which the identification of the choice of these areas is allowed.

The foundations also, in the statute or in a deliberate act by the address, the sectors which, up to three areas (the so-called “significant sectors”), also belong to more than one of four categories of admitted sectors. This statement commits the foundation for at least three years, unless permission of the supervision Authorities.

Regarding the allocation of income, subject to article 8 of the legislative decree no. 153/99, appropriate regulation adds that, after destinations referred to in this article, foundations operating predominantly in the areas relevant apportionment among them (sectors) the residual income in a balanced and in accordance with methods of social significance. The remainder of income devoted to institutional purposes may be used only in one of the sectors which, according to a criterion of social significance, no higher than that for the single significant sector.

The law recognizes, however, that foundations may use commercial instruments to pursue institutional purposes, both directly and indirectly, through the controlling stake in an entity that exercises such activities. The business must take place instrumental in “relevant sectors”.

With reference to the heritage, the discipline in question, indicating that it should be invested in activities consistent with the kind of institutions non-profit organization operating in accordance with principles of transparency and morality.

The pregnancy of strong institutional reappears when it is established that a share in any of the assets must be invested in jobs that are somehow connected to the pursuit of institutional goals and in particular to the development of the territory, while the criterion for adequate profitability. Evidence of these choices should be provided later in the program for a year, with separate and specific proof in the balance

⁴ It lists the sectors which are grouped by category: 1) family and related values, growth and training of youth, education, education and training, including the purchase of books for the school, volunteering, philanthropy and charity, religion and spiritual development, elderly care, civil rights, 2) prevention of crime and public safety, food safety and quality of agriculture, local development and local housing, consumer protection, civil protection, public health, preventive medicine and rehabilitation; sports, recovery and prevention of drug addiction, disease and disorders psychological and mental disabilities, 3) scientific and technological research, protection and quality environment; 4) art and cultural heritage.

sheet.

In a nutshell foreclosure compared to the pursuit of profit is reflected in the subjective requirement described devolution of income according to the law and within the limits the allocation of assets.

In order to appreciate the extent of the phenomenon in analysis, below is a table containing information relating to gifts awarded by the Italian bank foundations, in the last two years.

sectors	2006	2007
	amount*	amount*
Art and cultural heritage	489,45	524,91
Scientific and technological research	172,18	247,02
Education and training	184.,93	205,85
Volunteering, philanthropy and charity	267,84	178,40
Local development	98,84	178,40
Social work	146,67	168,11
Public health	157.83	133,80
Protection and quality environment	25,50	32,59
Sports	33,48	24,02
Family and related values	11,16	15,44
Civil rights	1,59	3,43
Religion and spiritual development	3,18	3,43
Prevention of crime, public safety	1,59	0,00
Grand total	1.594,30	1.715,40

* Euro/millions

Source: ACRI, *Tredicesimo Rapporto sulle Fondazioni di origine bancaria*, (draft)

The said regulatory framework has enabled the foundations, on the one hand, to focus on its mission and its operational strategy, taking into account changes in Italian society, second, to enforce organizational models, verifying adequacy not only with respect to regulatory framework, but also in relation to the ongoing strategic refocusing.

In the first profile, here dashed, it shows how foundations contribute, with efforts to design and carry out the growth trend and local community welfare, which is taking the place of the welfare state, in deep processing not only in our country.

In accordance with the powers that the law reserved to public institutions and in accordance with the constitutional principle of subsidiarity, the foundations are working to use their potential of social

catalysts, through their capacity of networking, innovating their operations and promoting new initiatives to proactive in responding to local authorities⁵.

The aim is to increase, on behalf of the territories of election, according to his vision and freedom of initiative, the financial capacity and expertise of the foundations for the support of the processes of local development and social innovation, supporting innovative forms of intervention with the aim of combining properly social and economic returns to the community.

The foundations compare its operation with the best international standards, represented by the major non-profit private reality, which is now active, following up of the strong progression of philanthropy at the international level, even in States which is more distant experience of the private social sector⁶. In this connection it is recalled that the work of foundations is continuously stimulated by international forums, in which they discuss the issues of modern philanthropy, such as the European Foundations Center (EFC) in Brussels, where the Italian bank foundations are members.

Referring instead to the second aspect, that of organizational models, developed below, it is stressed how the usual need for transparency of non-profit with social objectives, is a central theme of substantial importance. In this sense the identified organizational arrangements (also by the law), consistent with the objective of non-bureaucratic and, therefore, cumbersome to operate, beyond the reasonable achievable benefits, have resulted in the development of tools, such as mission balance sheet and ethic code. Both developed in the knowledge that the foundations in achieving its institutional purposes, not only operate in accord with principles of efficiency, non-discrimination and transparency, but also with respect to charges of ethical and social responsibility.

4. The Mission balance sheet

According to the first paragraph of article 9 of law decree 153/99, bank foundations write a management report, in addition to documents provided by article 2423 of the civil code. In this report, foundations are

⁵ On the not for profit side of bank foundations you can see M. CLARICH, A. PISANESCHI, *Le fondazioni bancarie. Dalla holding creditizia all'ente non profit*, Il Mulino, Bologna, 2001; G.P. BARBETTA, *Fondazioni di origine bancaria: quale progetto?*, in *Non profit*, 2002 fasc. 2, pp. 241 – 262; F. BELLI, F. MAZZINI, *Fondazioni d'origine bancaria e territorio: qualche spunto di riflessione*, in *Diritto della banca e del mercato finanziario*, 2003 fasc. 3, pt. 1, pp. 379 – 408; S. GATTI, *Fondazioni ex bancarie: protagoniste di una nuova sussidiarietà (A proposito di un libro recente)*, in *Giustizia civile*, 2004 fasc. 10, pt. 1, pp. 511 – 518.

obliged to “define, in a special section, social objectives pursued by foundation and realized plans, underlining the achieved results towards different classes of receivers.” It is that part of balance sheet usually called by foundations themselves *mission balance sheet*; it is a specific and basic character of foundation accounting documents.

In the mission balance sheet institutional activity is explained according to a well-defined logic, that articulates the document in two parts: the aims and the targets of the organism in the first section and patrimony profitability and the division of resources in the second section. The problems of patrimony investments have a fundamental importance for foundations because from these investments they obtain financial resources to carry out their institutional activity. The problem is discussed briefly in the mission balance sheet, in another part of the balance sheet, the economic and financial report, the task to provide details about it.

First of all, the mission balance sheet reports the numbers of projects that have got aid from foundation; all the gifts and sectors in which resources have been lavished are listed. It is evidently preliminary information, and subsequently detailed.

The first part of mission balance sheet contains the guide-lines to which the activity of past year was inspired. The guide-lines have a concrete impact on patrimony investments and on the gifts of reference community; they are inspired to ideal and ethic principles⁷.

Let’s try to make a list, even if not perfect and, under many aspects, reductive these principles.

The first one is the subsidiarity as regards public bodies and institutions operating on the reference territory. Banking foundations often grant gifts in fields where essentially public institutions operate, like university research or cultural goods. They have a role as subsidiarity as regard to public bodies: they do not take the place of public bodies, but they help them in subjects pursuing public interests.

The second principle regards the ending of actions having as aim the cultural and spiritual development of individuals in the territory in which foundation operates. This principle is expressed essentially in the research of improvement of life condition of society in which foundation is included. A society with a certain level of welfare can appropriately emerge the best abilities of individuals. For this reason too

⁷ See A. HINNA, *Il bilancio di missione da strumento di misurazione a leva di governo dell’organizzazione*, in AA. VV., *Manager e Management per il nonprofit*, Edizione ASVI, Roma, 2002, M. SANTI, *Le fondazioni bancarie. Dal controllo multidimensionale al bilancio di missione*, Clueb, Bologna, 2005.

foundations are inclined to support projects and initiatives potentially carrying to the development of social, cultural or scientific energies.

The third principle is to keep cultural and social traditions of reference community alive; these traditions often represent aggregation moments of people. It is included in this principle also the preservation of ancient institutions taken up the help of needy people and the gifts to some initiatives of civil society; these initiatives could not be effected without the help of banking foundations.

The fourth principle is to avoid as possible the dispersion of resources; foundations have to concentrate gifts on a small number of projects. Very often, especially at the beginning of 2000, foundations were accused of dispersing their own resources on a high number of projects, without giving useful help to reference community. The accusation is not completely founded: very often through a plurality of gifts, foundations allow the survival of institutions that with difficulty would be financed otherwise (see the third principle).

Banking foundations are not for profit subjects, having the institutional task of giving gifts in definite sectors, fixed by the law and called “relevant”. Within the list given by the law, foundations are free of choosing every or just some of these sectors, according to typical criteria of any organism. Variables that every foundation considers are the size of patrimony and the consequent volume of gifts, - we remember that among the 88 foundations present in Italy some of them have very big patrimonies, but most of them have small ones – the characteristic of reference territory, the presence of other similar organisms in the region or in the reference zone. Substantially, every foundation selects the choice of relevant sectors on the basis of own characteristics.

The enounced principles essentially coincide with the *Document of Pluriannual Planning*, the principle act of strategic course worked out by foundations; it covers a variable time from two to five years. Having a middle term temporal horizon the Document of Pluriannual Planning does not show in a specific way operations that the foundation will make in the considered lapse of time, but it confines itself to list some principle valid as programmatic guide-lines.

In the second part, the mission balance sheet analyzes per macroclasses institutional activity carried on during the year, related to the foundation guide-lines. It is a very analytic part of mission balance sheet

because in this part the foundation must show the correspondance among the law, the principles (the ethic law) and its own institutional activity.

The data contained in this section goes from the general to the particular ambit, from synthetic to analytic one. Usually the document gives a schedule in which the deliberated amounts and the number of deliberated actions per every sector are exposed. Afterwards the same information is grouped per classes of amounts. The comment of foundation describes in detail the single voices at united level.

We have to mention the principle, contained in the Ciampi law, that gifts have to assure “singularly and together, the well-balanced destination of resources and to give preference to sectors with greater social importance”. Here two rules to which foundations have to keep for the disbursement of gifts are fixed: 1) always needs a fair balance among the chosen sectors and 2) sectors with greater social importance must be privileged in distribution of gifts. They are common sense rules in term of law and are not always simple as managers often have to juggle various interests and request which are sometimes in direct conflict. They have just an only aim: to obtain the asked resources to foundation. With regard to this, we remember that amount of request at foundations usually exceeds the availability of that, so it is difficult to satisfy all the requests. Besides, for some sectors chronicly in deficit, like health or archaeological and museum goods, banking foundations are often the only way to obtain gifts except those traditional ones, represented often only by the State. It can often happen that it is a “run to gifts”, caused by the chronic lack of resources in the public sector. Foundations patrimonies sometimes represent the only door at which to knock to make the own institutional activity.

These problems clash non only with the financial bonds, but also with the law imposing “the well-balanced destination of resources” in all chosen sectors. It is not possible to have a concentration of resources in a only sector, but well-balanced distribution among not for profit subjects. In this way, law tends to guarantee to all chosen sectors a minimum of gifts, avoiding in the meantime favouritisms and grafts of a sector with respect to another. The preference assigned by the legislator to sectors with greater social relevance is simply justifiable without need of further comment.

With regard to small foundations, it is often difficult for these subjects to try to destine a well-balanced part of gains to all relevant sectors, considering that their gains are small and it often is not possible to satisfy all the requests.

The Mission balance sheet speaks about assigned gifts, according to the distinction “projects of third people” or “own projects”. There are two types of requests of gifts: the requests coming from external subjects to the foundation and the requests coming from inside the foundation.

For the first type, the principal problem for the foundation is to find a point of contact with the public to spread as much information as possible to obtain a large participation at the selection of gifts⁸. For this aim, modern information technologies are a huge asset. In fact, often on the foundation web sites are inserted some schedules that it is possible to compile for the request of gifts, presenting in the meantime also the projects of which gift is requested or at least the object of gift.

In the second type of requests, the request follows the same iter as the first one; the only difference consists in the fact that the request is presented by subjects inside the foundation.

For both projects exists the bond of available resources constituted by profits of the year and by the possible surplus of previous years. The foundations invest their patrimony essentially in financial instruments and so the patrimony profitability derives from market performances. During periods of substantial increase of financial markets, as happened from 2001 to 2007, foundations gave more than periods in which market performances are low or negative, as from 2007 to 2009.

To mention that it can happen that the interventions assigned during a year find their execution only during one or plus following years. In this case management has to consider this fact in deciding the gifts for the present year.

In mission balance sheet it is considered the course of gifts in reference to two or three previous years and their correspondence with all provided by the Document of Pluriannual Planning. Foundation supplies in this way a short historical series of gifts during a certain lapse of time, giving valid information to stakeholders about own institutional activity.

The principal components of profit and loss balance sheet are disaggregated. They are compared with the estimated values to evaluate the shifting and to understand its causes. Shifting measurement is fundamental to understand if the target lines that foundations gave to themselves were reached or were

⁸ For deepening you can see F. MONGE, *La governance delle fondazioni bancarie*, Franco Angeli, Milano, 2005, pages 71, 72.

not. It belongs to the area of management control applied, even if with some differences, at not for profit sector.

Besides that, the analysis of previous performance, whether they are referred to the same foundation or to the whole sector of foundations, has to be considered to try to obtain a profitability at least the same as percentage obtained in the past. This fact is not so easy, considered that replying past performances with market conditions changing year after year needs a good deal of luck. However, past performances are a valid benchmark with which managers can compare the present performances.

In the case of foundations, patrimony managers have to choose a strategy of risk-profitability that is adequate and consistent with the targets of fixed gifts for the year or for the following years to that in which it needs to decide how to invest the patrimony.

Mission balance sheet is completed by the precise analysis of given gifts sector per sector. It is the final part of mission balance sheet, that often consists of many pages. For every sector the comment expatiates in details the granted gifts, especially on the high amount gifts, explaining the aim for which the gift was granted. This analysis belongs to transparency principle to which foundations have to conform.

During last years, foundations, especially the big ones, transformed the presentation of the mission balance sheet in an occasion to show public opinion their own activity. It is one of the way to put the principle of transparency of foundation's decisions into practise and to confirm principles to which organism's behaviours are ethic and turned to social aims.

5. The allocation of the foundations' assets

Although in the mission balance sheet there is only a hint of the assets investment, it is necessary to go into more detail, since it is the tool used by foundations to achieve the principles outlined in the Document Multi-annual Planning and detailed in the mission balance sheet, as well as having a strong ethics (see below).

According to the data of ACRI (*Associazione fra le Casse di Risparmio italiane*, Association among Italian Saving Banks) the bank foundations had a capital at the aggregate level, on 31 December 2007, about 48 billion euros; this heritage has grown steadily each year from 2000 to 2007 under the mandatory provisions to which reservations are from the share of profit earned by each foundation. At an aggregate

level, the equity is 84,7% of the elements of liability, while the financial assets constitute 95% of the assets, the remaining items of liabilities are made up by funds and grants decided upon, while those assets consist of cash (1.1%), credits and other (mail only, 1.4%) and fixed assets, both tangible and intangible, (1.9%) (ACRI, 2009).

This enormous stock of capital resources requires a careful, prudent in order to achieve the goals that are required by law to foundations. In this context ethics is of paramount importance (on this see the next paragraph). As preliminary observation we note that the assets are invested almost entirely in equity, while only a fraction is represented by fixed assets (tangible and intangible); from *Thirteenth Report on Banking Foundations* we know that the buildings are only 1,9% of aggregate. The composition of the Foundations' assets is just as diverse to elements, and this fact comes from the historical foundations of the bank and the events that have followed.

According to art. no. 5, legislative decree 153/99 "Foundations in the management of assets, observe prudent risk in order to preserve the value and obtain a proper return"; art. 7 of the decree specifies the concept by adding that "the foundations diversify the investment risk and employ in order to obtain adequate profitability by ensuring the functional links with their institutional goals and in particular with the development of the territory." We need to build from these two articles the way to understand the underlying logic of foundations' investments.

The construction of a portfolio that complies with the principle of prudence and that both ports access to adequate profitability uses elementary tools such as correlation coefficient, which here does not deepen⁹. For the aim of building a portfolio is fundamental the investor purpose: in banks, for example, the investment is affected by demand for loans requested by customers; on it because the banks have settled for securities short or long term. For foundations the aim is different: to achieve a profit as high as possible in order to provide funding in the third sector. It's clear that the foundation, in this case, will do a thorough analysis of the risk-return of the securities that it intends to buy, in particular should:

- select securities with low risk;
- among the titles selected, for the same risk, buy those with higher performance.

⁹ See G. LUSIGNANI, *La gestione finanziaria della banca*, in M. ONADO (a cura di), *La banca come impresa*, Il Mulino, Bologna, 1996, pages 315 and following; G. GALLO-B. PACINI, *Metodologie quantitative per i mercati finanziari*, Carocci Ed., Roma, 2002.

In this way the Foundation will have a composite portfolio, which ensures a low profitability, but almost certain, so as to enable it to plan payments over several years also.

In addition to the principle of prudence, the management of its assets requires that the foundations should take care of whether of the adequate profitability. The law does not specify what should be the adequate profitability of the investment, but we believe that it should be understood as capital adequacy and delivery targets to be achieved. If this interpretation is correct, the foundation, in choosing the titles on which to invest, should take full account of their assets in order to obtain a fair return from the resources invested. It's difficult to have a perfect connection between the objectives of profit really achieved, because the prices of securities selected by the foundation is uncertain by definition, nor is assumed that by choosing securities with lower risk you get an adequate return; which may indeed be that the management of part of assets obtains a negative profitability and that only that portion leading to the downward performance of all assets. Thus happens, some foundations have a higher profitability than the average of sector, other have lower profitability and a more negative profitability, as the yields of the individual parts of assets that were invested through diversification.

Patrimony yields of every foundation are different because they depend on a plurality of factors: documents in portfolio, managers' ability, sectors in which they invest and various other causes. All the patrimony managers have to tent in principle to obtain the highest profitability of managed patrimony, considering the propensity to risk of the owner of the patrimony. This fact whether because the performance is the more objective benchmark to value the ability of managers or because, in the case of foundations, the highest is the patrimony profitability the highest are gifts to not for profit sector, or because a good profitability increases foundations patrimonies consolidating it so that in the future foundation obtains higher gains. Just a part of gains is distributed like gifts; another part is kept as patrimony net in the foundation. Consequently, every foundation tends to accumulate resources for periods in which yields will be lower, so that they guarantee gifts to not for profit sector as constant as possible during the years.

6. Some reflections on the ethic code

From the middle of the year 2000, bank foundations are endowed by an ethic code to which conform their behaviour during the course of institutional activity¹⁰.

Except for many aspects that do not interest our aims, ethic code advises some specific targets about the principles inspiring long-term strategies to invest the owned patrimony. Specifically, foundations have to assure a steady flow of gifts every year, keeping value patrimony and trying to increase year by year without speculative behaviour, that can damage the integrity of the patrimony. This is a principle inherent in the itself nature of the managed patrimony: it belongs to reference community, to which it was conferred by the institution's founders. The bond of belonging ensures managers give account of their management to civil society, an abstract entity. As a precise subject to whom to give account of their actions does not exist, but as managers have diffuse responsibility with regard to a plurality of subjects nobody can boast of greater rights of intervention than other people about the managers actions, managers have to give an account of themselves to other people.

The accounting recordings of foundations must be characterized by principles of clearness, transparency and formal and substantial correctness. These principles refer to, at least in part, the civil code ones for companies (article 2423, second paragraph). Every recording must be supported by a document so that an external control can prove the executed operation.

The valuation of proposed projects must be characterized by the highest impartiality and decision to supply gifts to a subject rather than another one must be free from any conflict of interests. Concept of obvious interpretation: the objectivity of people judging a project presented by anybody is a guaranty of impartiality and transparency in the action of foundations.

The rules of ethic code apply themselves to all the aspects of foundation ordinary activity, up to accounting documents and balance sheet. Ethics must characterize foundation behaviour at all hierarchic levels, from top management to the lower level employees one. Ethics allows an increase of the consideration of the community with regard to these organisms. In a period like the present one, in which lack of ethic in the behaviour of management of financial companies was one of the causes of the present crisis, we are glad of the roles that foundations gave to themselves.

¹⁰ For two examples of Foundations ethic codes, see "Codice di comportamento della Fondazione Cariplo", the biggest banking foundation in Italy, and the ethic code of Foundation of Venice, both in the institutional web sites of foundations.

In addition to these things, considering good performance in profitability of patrimony (in 2007 it was of 8 per cent¹¹; in 2008, even if we do not have data, it was presumably lower) and that bank foundations have never got involved in any scandal during almost twenty years of life, it is easy to deduce that ethic rules are really applied in the fulfilment of their activity.

In this frame we have in brief outlined, the mission balance sheet is the essence of ethic code, the document through foundation communicates the application of their behaviours and of achieved results to public opinion. A document of fundamental importance to put into practise the transparency principle.

7. Criticalities of mission balance sheet

The mission balance sheet is a precise document that BFs make to give count of their own institutional activity in detail. From this document some criticalities emerge.

The first one is that the mission balance sheets should be more uniform: the same importance is not dedicated by all four examined balance sheet to the same arguments. This fact is underlined by the different number of pages too. Cariplo Foundation, for example, dedicates a lot of space to methods of patrimony investment. This fact does not happen in the other three cases. Concerning the sectors of disbursement of produced resources, four balance sheets dedicate a large space to them, even if with synthetic or analytic structures.

The second criticality is that, in the case of Saving Bank Foundation of Verona Vicenza Belluno and Ancona, stakeholders are determined. This is an interesting aspect of the mission balance sheet taken into consideration: the location of the stakeholders is an essential aspect of public bodies social balance sheet, but not of the foundations' mission balance sheet. They usually do not explicitly enounce. It is obvious that all foundations know who stakeholders of their mission balance sheets are.

The mission balance sheets should put in evidence the spur that foundations give to reference community through annual gifts. This concept is well present in the letter of President of Monte dei Paschi foundation put before the mission balance sheet, but is not present in the other analyzed balance sheets. Let's reproduce the text: "It needs to put in evidence a fundamental concept of our action: it does not have to

¹¹ Source: *Tredicesimo rapporto (Thirteenth report)*, cit., chapter 3, page 19.

consider like a perpetual support, a kind of insurance for life without conditions, but rather an initial spur so that hipotesis of intervention can embody and develop with own strenght and become independent.”

Among the inspiring principles of foundations’ activity is that one of maintenance of the patrimony of the organism, so that it can be transmitted to the reference community from the previous generations. This fact finds an actualization in the investment patrimony criteria. These are usually prudential, even if some investments in hedge funds, luckily limited, do not seem to belong to this category. This part of connection between the principle and the actualization is not so evident in the mission balance sheets.

The challenge of management consists in doing of the mission balance sheet an instrument to represent its action in a precise way and to extend the public of potential stakeholders. Not only. The mission balance sheet is an instrument to let to know to the public the choices of long-term investment of patrimony and so the sustainability in concret of management strategy. If this strategy is not clear for stakeholders, the responsibility is management’s; the accuses of having no responsibilities, sometimes undergone by banking foundations, are to abscribe to this fact.

8. Concluding remarks

Reiterated that the purpose of the institutional aim of bank foundations is not so much to increase long-term value of assets and achieve good economic results and assets, but mainly to achieve their civil end, in the best conditions of efficiency and efficiency of resource use. It seems clear that the mission balance sheet helps to express the performance of foundations, just like in business, for profit, the balance sheet expresses produced for the capital property. Distributing activity inefficient or ineffective would be, for a foundation, negative institutional result like a bad investment policy.

Therefore the mission balance sheet is an essential element by which the foundations are directly relevant to their work to communities or institutions which originated from the foundations. One can be also understand as the summary of the communication process performed by the foundations is to inform stakeholders about the degree of efficiency and effectiveness of their institutional activities.

Given the objective of the budget accounts of the mission, the evaluation of the results must be considered in connection with the initial objectives, and this relationship must be explained in the key budget adopted. It is therefore essential to carefully define the information on which to evaluate the

performance of the foundation towards the mission of its stakeholders, with particular regard to the completeness, accuracy and relevance of the data provided, which, while remaining within the limits of a communication essential, as a document containing an excessive amount of information, might be not practical.

This is a challenging task, given that the mission balance sheet of the individual institution should refer to specific stakeholder mission to defined areas of intervention and, above all, the context in which the foundation operates. Therefore, differences in accountability may also arise in relation to: (i) characteristics of the foundation, in terms of organizational and operational, including related and controlled entities; (ii) programs pursued in the different sectors and areas of intervention; (iii) use of capital, both in relation to the holding in the bank, both of ethic and social responsibility of investments, whose reporting.

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