



UNIVERSITÀ
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CRC - CENTRO RICERCHE SULLA COOPERAZIONE
E SUL NONPROFIT

WORKING PAPER N. 13

**The Role of Board's Competences
and Processes in Shaping
an Effective Grant-Making Strategy**

Boesso G., Cerbioni F., Menini A., Parbonetti A.

VP VITA E PENSIERO

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© 2014 G. Boesso, F. Cerbioni, A. Menini, A. Parbonetti
ISBN 978-88-343-2800-2

Research support was provided by a grant from the *International Research in Philanthropy Awards* (IRPAs) of Italy. IRPAs is a joint initiative of the *Centro di Ricerche sulla Cooperazione e sul Nonprofit* (CRC) of the Catholic University of Milano (Italy) and the *Dipartimento di scienze economico-sociali e matematico-statistiche* of the University of Torino (Italy).

An earlier version of this article has been presented and discussed at the Fourth Workshop on Foundations, Catholic University of Milano, October 7–8, 2013. I thank Paolo Balduzzi for helpful comments and suggestions on an earlier draft. All errors are my own.

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Abstract

This paper investigates the relationships between the choice of philanthropic strategy and board capital (diversity and networks), governance processes (board processes, board internal committees and board effectiveness), and the CEO leadership. Using a sample of one-hundred and ten Italian foundations, results show that appropriate governance processes record the strongest positive association with a sound strategic approach to institutional grant-giving, while board capital and CEO leadership associate only at specific given conditions.

JEL codes: M14 G30 L31

Keywords: governance, philanthropy, board capital, governance processes, CEO leadership.

1. Introduction

Do governance mechanisms affect the philanthropic strategies of non-profit organization? The link between governance and organizations' strategic outcome has been analyzed considering listed public companies but has received little or no attention in non-profit organization's literature.

The motivation of the paper is twofold. First, governance in non-profit foundations is peculiar in itself and Porter and Kramer (1999) in a theoretical paper support that governance affects the philanthropic strategies of foundations. However, the empirical evidence in that area is scant. Recent literature has investigated the composition, role, responsibilities, and characteristics of nonprofit boards, however the nonprofit literature reviews currently available (Du Bois et al., 2007; Ostrower and Stone, 2006) show the lack of research on the casual link between governance and strategy. This paper tries to fill this gap in the literature examining the role that effective governance plays in driving the strategies of grant-giving foundations, as it relates to supporting various types of charitable and philanthropic activities of public interest.

Second, foundations are, more than ever, active as pivotal element of the so called "private welfare state" all around Europe and the USA. While other forms of organizations involved in philanthropy and public welfare face competition (i.e. corporations), budget constrains (i.e. governments) or fundraising imperatives (i.e. NGOs), private

foundations do not feel such a pressure and can, therefore, tackle social issues that other organizations or individual donors may not. The foundations can be considered as “institutional donors” where the allocation of resources should boil down from a well defined and an articulated strategy. Therefore, scholars, politicians, and practitioners expect foundations to play the unique role of social merchant banks fostering the positive impact of nonprofit organizations on societies. Moreover Previous literature (CEP, 2004; Ostrower and Stone, 2007) and regulators (European Commission, 2005; U.S. Senate Finance Committee, 2004) have argued for effective nonprofit governance in order to achieve these objectives, thus making the governance of non-profit organization an hot topic.

Using the data collected from 110 Italian foundations, this paper studies the relationship between selected governance items and philanthropic strategies of private foundations. Italian foundations represent an ideal research environment considering the strong reduction of governmental social spending due to the financial crisis and the simultaneous increase in the social relevance of private foundations to support social causes of significance.

We measure the philanthropic strategies of foundations using the Porter and Kramer (1999) four tier-hierarchy of philanthropic strategies. As governance variables we include board diversity, process, effectiveness and CEO leadership. The results show that board processes and diversity are related to more complex

philanthropic strategies, while strong CEO's leadership characterize less evolved philanthropic strategies.

The paper contributes to the literature on the governance of foundations showing an association between governance and the philanthropic strategy. Particularly, the paper presents results about three different governance mechanisms: diversity; processes, including the role of committees; and CEO leadership. As a consequence, it clarifies the specific role of each mechanism.

The remainder of the paper is organized as follows: section two builds on existing literature to generate our hypotheses, section three presents the sample and the method applied, section four highlights the results and section five concludes.

2. Theoretical Background and Testable Predictions

While foundations are an important player in the nonprofit sector, their number and significance is growing internationally (Lecy and Slyke, 2013), there are few studies investigating the role of the board in their strategic planning. Several studies examined the way in which nonprofit board performance can affect organizational performance (Brown, 2007; Cornforth, 2003; Green and Griesingev, 1996); the institutional and social context affecting boards (Fredette, 2012); the behavior, decision-making processes and relationships within and outside the board (Frumkin, 2010); changes in board composition and action (Gabiellsson and Huse, 2004); but only a few studies mention the relationship between governance and strategy

formulation in this particular kind of nonprofit players (Brown and Iverson, 2004; De Andrés-Alonso, Azofra-Palenzuela and Romero-Merino, 2010; Porter and Kramer, 1999).

Additionally, the governance problem in nonprofit foundations has many specificities that need to be considered in linking governance and strategy.

Grant-giving foundations are intermediaries between the individual donors who found or fund them and the various social entities they financially supports. In creating social value foundations' managers are required to make the most effective use of scarce resources than either individual donors or the government could make. Furthermore, free from individual preferences or political pressure, foundations' manager should explore any possible solution to social diseases and compare prototyped experiences of social venture with the right scale, time horizon and managerial expertise (Porter & Kramer, 1999, p.122).

Moreover, nonprofit foundations' managers face the additional complexity of spending money generally favored through tax preferences which belongs, in a sense, to the whole community. In doing so, only effective governance systems can mediate between the conflicting goals of the different principals interested in social value creation (donors, beneficiaries and community) and other agent's goals which typically add up (career planning, short-termism, consolidation of his/her own network, consolidation of the

foundations' size, scope, power, financial return, etc.). Finally, foundations' broad community mission, agents' actions should be performed in the full interest of all major stakeholders, not only the principals, such as: employees, state, suppliers, partners, etc. Therefore, the governance system is required to carry-on its strategic and advisory functions on agents leveraging on its independence, knowledge, experience and relying on the appropriate governing processes designed to inspire and monitor the agents' actions.

Our study merging two streams of literature, philanthropic strategy (our dependent variable) and nonprofit corporate governance (our independent variable) tries to shed light on the link between governance and philanthropic strategy. Grounded in resource-based theory (Pfeffer, 1972), and stewardship theory (Muth and Donaldson, 1998), this study focuses on how the board's composition (Diversity), size, structures, effectiveness, process, and leadership are associated with different philanthropic strategies. The stewardship theory emphasizes the strategic role of board and Low (2006) argues that as organizations evolve from grant-giving to more complex grant-making strategies the board, to perform its strategic roles, needs a richer and more diverse board's members expertise. Additionally the resource-based perspective views boards as boundary spanners able to link an organization with the external environment. As a consequence, resource-based theory (Pfeffer,

1972) and stewardship theory (Muth and Donaldson, 1998) help to link board characteristics and complex grant-making strategies.

2.1 Philanthropic strategies

Previous research underlines the important role the board plays in nonprofit organizations. In fact, as stated by Andres et al. (2010), in the nonprofit sector the board of trustees stands out for their level of commitment in strategic planning and decision processes. According to these authors board members do not limit themselves to monitoring the managerial team, but they play a more active role in the decision making process, defining the organizational mission and forming the agreement on resource allocation. For this reason, the function and composition of the board has to be studied in a more global perspective, embracing not only its monitoring activity but also in terms of introducing and using the knowledge which is critical to constructive decision making.

One of the main decisions board should take is strategy definition; CEP (1999, p.2) defines foundation strategy and boards' commitment as *a framework for decision making that is 1) focused on the external context in which the foundation works and 2) includes a hypothesized causal connection between use of foundation resources and goal achievement.*

Porter and Kramer (1999) build on these recommendations and better explain how to formulate an effective strategy by proposing a clear

hierarchy of four ascending behaviors potentially able to increase the social impact of foundation's grants:

1. selecting the best grantees
2. signaling other funders
3. improving the performance of grant recipients
4. advancing the state of knowledge and practice.

But creating value in any of these four ways is conditioned to a real strategy. According to Porter and Kramer (1999) the underlying logic of strategy in business and in philanthropy is the same: the goal is superior performance in a chosen arena; strategy depends on choosing a unique positioning; strategy rests on unique activities; every positioning requires trade-offs. In other words, a foundation needs to measure – both its and trustees-performances over time, identify the fields in which it is able to operate and collect resources in line with its purpose.

The work of Porter and Kramer (1999) is particularly informative to nonprofits and sets first guidelines for highlighting more complex grant-giving strategies. The unanswered question is if and how governance board can facilitate such strategic transaction. Brown and Iverson (2004) partially confirm this possibility, however they tested as dependent variable a largely accepted “for profit” strategic typology (Miles and Snow typology). Their results associate tighter and more focused boards to nonprofit organization characterized by a

more defensive strategic approach and broader and more inclusive boards to organizations more open to product and service innovation. Accordingly, the potential of the strategic classification proposed by Porter and Kramer derives from the fact that it has been studied specifically for foundations and it should better relate with changes in nonprofit governance design.

Following Kramer and Porter (1999) we will next suggest in our method section that: intense screening activities; additional fundraising; participation to complex projects and the assessment of social impact contribute to a more evolved strategic approach than limiting foundation activity to basic charitable activities. Before describing our method, however, is crucial to justify and properly measure the governance's contribute to such strategic shift.

2.2 Corporate governance and philanthropy strategy

Effective governance inspires and leads organizations' strategies (Cornforth, 2003). Since governance is a system of interrelated characteristics, all of which are relevant to strategic effectiveness, this paper analyzes the impact of board composition (i.e. diversity), effectiveness, structure, processes, and the CEO leadership on the philanthropic strategy.

Philanthropic strategy and board composition

The role played by the board as a whole is a mosaic of the individual roles of the directors in terms of both the internal and external environments (Bradshaw, 2009; Callen, Kein and Tinkelman, 2003).

There is great variability in the capabilities that each board member brings to his or her organization that arises from professional experience, problem-solving skills, and stakeholder exposure (Inglis and Cleave, 2006). This diversity produces the mosaic of decision-making structures and organizational behavior and De Andrés-Alonso et al (2010) stress the opportunity generated by foundation directors' ability to merge diverse stakeholders' interests and organizational resources.

Siciliano (2005) purports that a wider diversity in board members characteristics enhance organizational performance. The diversity foster the ability of board members to bring to the board new insights and new resources based on their peculiar background. In this vein, Brown and Iverson (2004) shows the importance of inclusive boards also in the nonprofit sector in fostering strategic change and show that the more the board is inclusive the more the nonprofit organizations shift forward to a more challenging strategic approach.

Based on these observations, we derive the following hypothesis:

Hyp1: The board diversity is positively associated with more evolved philanthropic strategies.

Philanthropic strategy and governance activities (processes, committee and effectiveness)

Previous nonprofit literature (Cornforth, 2003; Green and Griesinger, 1996) highlights the relevance of the board process in determining board effectiveness. Holland and Jackson (1998) underscore the

importance of board actions like: recruiting the right people; putting meaningful structures in place, such as having additional operating committees supporting the board; setting the stage for effective board and committees meetings; and steering meetings to improve board effectiveness as perceived by the boards' member themselves. Zimmermann and Stevens (2008) highlight several process best practices for nonprofit boards focusing on the separation of board and staff duties.

Green and Griesinger (1996) argue that the board's activities affect its effectiveness in nonprofit organizations. They also find evidence that, after defining the firm's mission and policies, the main board responsibilities are the board members' evaluation of the CEO and their participation in short- and long-term strategic planning, community interaction, and board development.

The underlying assumption of such research is that more elaborated activities, processes and governing bodies as well as higher perceived effectiveness - as a proxy of the relevance of all activities performed by each board member - facilitate more challenging strategic approaches. Therefore, we hypothesize the following:

Hyp2: Sophisticated governance activities are positively associated with more evolved philanthropic strategies.

Philanthropic strategy and CEO Leadership

Despite their presence and role in any foundation, the leadership of the CEO has received little attentions in the nonprofit arena. Accord-

ing to Conger *et al.* (1998), an effective board needs authority; whether in the presence or absence of a powerful leader (i.e., a CEO), any organization must achieve a balance of power between the board and the chief executive. In nonprofit organizations, power is appropriately manifested in the ability of the CEO to influence key decisions (Perrow, 1963). Nevertheless, corporate literature disagrees about the effects of CEO power on the involvement of the board in strategy. On one side, following agency theory, Dalton and Kesner (1987) posit that a powerful CEO may impair the independent judgment of the board. On the other hand, Pearce and Zahra (1991) emphasize that, without a powerful CEO, directors engage in more discussion and debate than they would with a powerful CEO, which allows diverse viewpoints to surface.

Siciliano (2008) points out that strong leaders (CEOs or chairmen) in nonprofit organizations enhance directors' active role in strategy and leadership stability. This view fits well, for example, with the Italian FOBs, as their peculiar genesis (philanthropy by decree) caused a gap in strategy and leadership (Barbetta, 1999).

Although the impact of CEO leadership is controversial, following the nonprofit literature stream we state the following hypothesis:

Hyp3: CEO leadership is positively associated with more evolved philanthropic strategies.

3. Methodology

Sample

We collected governance and philanthropic strategy information by submitting a questionnaire to eighty-eight foundations of banking origin and eighty-one company-family or community foundations . Preliminary versions of the questionnaire were presented to two foundations' professional associations (ACRI and ASSIFERO) and tested on a focus group of four foundations in order to validate terms and information. Only the chair or the general director/secretary could answer online from January to June 2010. After three recall initiatives, we achieved a 65 percent response rate. This sample includes the majority of the largest Italian grant-making foundations and is highly mixed in its composition. In particular, such a sample allows to test the association between strategy and governance in foundations of four different origins (banking, family, corporate and community) potentially making any result stronger in its extendibility to any type of foundation. The one country study design proposed in this paper is intended to limit the influence of national and cultural effects on the tested association.

Empirical Model

Using Porter and Kramer (1999) key elements of the four ways foundations may use for creating value (selecting the best grantees; signaling other funders; improving the performance of grant recipients; advancing the state of knowledge and practice) we measure

philanthropic strategy (PS) in two different ways: a continuous proxy (PSC) and a rank proxy (PSR).

We fit data models by using regression estimation for the continuous proxy (PSC) and ordered logit for the rank proxy (PSR) (all t statistics are corrected for heteroskedasticity) and use the following multivariate model to test our hypotheses.

$$\begin{aligned}
 PS = \alpha + \beta_1 \textit{Diversity} + \beta_2 \textit{Network} + \beta_3 \textit{Process} + \beta_4 \textit{Effectiveness} + \beta_5 \textit{Leadership} + \\
 + \beta_6 \textit{Committee} + \sum_i \gamma_i \textit{Control variable}_i + \varepsilon,
 \end{aligned}
 \tag{1}$$

where PS is Philanthropic Strategy (PSC or PSR) and all the other variables are describes in the following subsections.

Dependent variable

Foundations can implement philanthropic strategies using four different approaches. We proxy selecting the best grantees with the answer to the importance of screening potential grantees during boards' meeting (*screening*) (5-points Likert scale form "no importance" to "the most important"); we proxy signaling other funders with the frequency of additional fundraising for the grantees (*fundraising*) (5-points Likert scale form "never" to "always"); we proxy improving the performance of grant recipients using the average priority in financing and getting involved in complex projects respect to research or unconditional grants (*projects*) (5-points Likert scale from "no importance" to "the most important" among seed, complex and own

projects and research and unconditional grant); we proxy advancing the state of knowledge and practice using the number of methods for assessing the social impacts implemented in the foundation (*social*) (5-points Likert scale from “no method” up to “more than 7 methods” in groups of two). All the four components of philanthropic strategy indexes (*screening, fundraising, projects and social*) are normalized between 0 and 1.

In order to measure philanthropic strategy (PS) we use two different ways: a continuous proxy (PSC) and a rank proxy (PSR).

Following CEP (1999) indication of an hypothesized causal connection between use of foundation resources and goal achievement we proxy philanthropic strategy as the product of the importance of *screening* potential grantees, develop *fundraising* activities, allocate resources into complex *projects* and implement methods for assess *social* impact as subsequently indicated:

$$\text{PSC} = (\textit{screening} + 1) * (\textit{fundraising} + 1) * (\textit{projects} + 1) * (\textit{social} + 1)$$

Strictly following Porter and Kramer (1999) indications that each successive approach leverages a foundation’s special assets more than the preceding and the existence of a clear hierarchy of ascending impact we create a rank proxy of philanthropy strategy (PSR) using the subsequent step-by-step procedure:

$$\text{PSR} = 1 \text{ if } \textit{screening} > 0$$

$$\text{PSR} = 2 \text{ if } \textit{screening} > 0 \text{ and } \textit{fundraising} > 0$$

PSR = 3 if *screening* > 0 and *fundraising* > 0 and *projects* > 0.5

PSR = 4 if *screening* > 0 and *fundraising* > 0 and *projects* > 0.5
and *social* > 0

In other words a foundation for achieving the maximum score (4) must give some importance to the screening activity, must practice some fundraising activity, must prefer to get involved in complex projects respect to research or unconditional grants and must implement at least one method to assess social impact. It is worth to notice that this procedure allowed to have foundation with philanthropy strategy rank equal to zero.

Research variables

We focus on three main aspects of corporate governance: board composition, governance activities, and CEO leadership.

First, we measure board composition considering whether board member characteristics allow for a great variety of expertise (i.e. managerial, financial, law, artistic, political, environmental, and technical ability). Board diversity (*Diversity*) increases as the number of expertise covered by board members increases.

Second, we measure governance activities using three different aspects: the degree of development of several board processes (*Process*), the degree of board effectiveness (*Effectiveness*) and the number of additional committee supporting the board's activity (*Committee*). In particular, *Process* is the normalized (from 0 to 1) mean among characteristics and practices related to corporate governance

(as measured by responses to the survey on a Likert scale) emerged from the foundations' chairmen focus group. We consider the level of satisfaction with the planning and control mechanisms, the level of training activities reserved for new board members, practices related to the collection of information, the accuracy of information given to board members, the frequency with which boards are evaluated, the frequency of invitations made to opinion leaders to meet with the board, the frequency of meetings with applicants, the frequency of in-depth examination sessions, the implementation of software for performance control reasons, the involvement of external institutions, and the number of managerial tools implemented. *Effectiveness* is the degree of changes in programmatic lines done by the board due to board member changes (5 point Likert scale from "nothing" to "completely"). *Committee* is the number of different committees that meet for more than 20 hours in a year.

Third, we measure the CEO's leadership (*Leadership*) as the degree of power delegated to the CEO measured by how often the board accepts to trust his/her personal action for solving emerging issues (5-point Likert scale from "never" to "always").

Control variables

We control the relationship between corporate governance features and philanthropic strategy indexes for aspects such as board size (*Size*) measured as the normalized (from 0 to 1) number of board members, the environment or region where the foundation is mainly

active (*Environment*), the amount of available resources (*GrantsAssets*) and two very different types of foundation (of banking origin: *FOB*; and of community origin: *Community*).

One of the main objectives of FOBs is to reallocate wealth in the region from which the participating bank collects resources. Likewise community foundation has the objective to finance project based on the interest of the community. Italy is comprised of 110 highly differentiated and heterogeneous provinces in terms of their socio-economic ratios. Therefore, we control for the province's wealth, measured as the per capita gross domestic product in 2009 (*Environment*). It is worth to notice that some corporate or family foundation operates at national or at worldwide level, therefore we measure the environment using the Italian per capita gross domestic product in 2009. We measure the amount of available resources as the ratio between the amount of grants financed and total assets (*GrantsAssets*). In addition, we control using two dummy variables (*FOB* and *Community*) the effect of being a foundation of banking origin or a community foundation respect to corporate or family foundations.

For a full list of the variables used see Table 1.

4. Results

Descriptive analysis

Table 2's Panel A reports the descriptive statistics of the variables involved in the analysis. Concerning our dependent variable, descrip-

tive results show that Italian foundations implement polarized screening activities (*Screening*), do limited fundraising (*Fundraising*), less than 50% give priority to complex projects respect to research grants (*Project*) and rarely use instruments for assessing social impact (*Social*).

Table 2's panel B reports the mean for each philanthropic strategy based on PCR. Using the procedure describe in the methodology section we classify 30 foundations as bottom benchmark (0); 30 foundations that are focused in screening grantees (1); 31 foundations that add fundraising to the screening activities (2); 13 foundations that take actions in complex projects (3); 6 foundations implement at least one method for assessing social impact beside screening, fundraising and projecting activities (4). These data show a low number of foundations with more evolved philanthropic strategies (3 and 4), but this result is in line with Porter and Kramer (1999) given the disruptive challenge proposed by their theoretical framework to foundations' leaders.

On average, bottom (0) and top (4) benchmarks have smaller but more diversified boards. In addition, more evolved philanthropic strategy types (3 and 4) seems to have better board processes and more effective boards. Moreover, low evolved philanthropic strategy types (1 and 2) show strong CEO leadership.

Table 1 - Variables definition

Variable	Definition
PSC	Philanthropic strategy continuous score calculated as $(screening + 1) * (fundraising + 1) * (projects + 1) * (social + 1)$
PSR	Philanthropic strategy rank calculated as PSR = 1 if <i>screening</i> > 0 PSR = 2 if <i>screening</i> > 0 and <i>fundraising</i> > 0 PSR = 3 if <i>screening</i> > 0 and <i>fundraising</i> > 0 and <i>projects</i> > 0.5 PSR = 4 if <i>screening</i> > 0 and <i>fundraising</i> > 0 and <i>projects</i> > 0.5 and <i>social</i> > 0
<i>screening</i>	the importance of screening potential grantees (5-points Likert scale form “no importance” to “the most important”)
<i>fundraising</i>	the frequency of additional fundraising for the grantees (5-points Likert scale form “never” to “always”)
<i>projects</i>	the average priority in financing own or complex or seed project respect to research or unconditional grants (5-points Likert scale from “no importance” to “the most important” among seed, complex and own projects and research and unconditional grant)
<i>social</i>	the number of methods for assessing the social impacts implemented in the foundation: output measurement; outcome measurement; added social value; externality analysis; social report; sustainability report; focus group; stakeholders analysis; other (5-points Likert scale from “no method” up to “more than 7 methods” in groups of two).
Diversity	Number of different competences / 7 (managerial, financial, law, artistic, political, environmental, and technical ability)

(segue)

Variable	Definition
Process	Mean among board processes (level of satisfaction with the planning and control mechanisms, the level of training activities reserved for new board members, practices related to the collection of information, the accuracy of information given to board members, the frequency with which boards are evaluated, the frequency of invitations made to opinion leaders to meet with the board, the frequency of meetings with applicants, the frequency of in-depth examination sessions, the implementation of software for performance control reasons, the involvement of external institutions, and the number of managerial tools implemented)
Effectiveness	Changes in programmatic lines due to changes in board membership
Committee	Number of committee that meets at least for 20 hours per year
Leadership	Delegate to the CEO
Size	Number of board member (normalize)
Environment	Logarithm of the Province GDP in 2009 in which the foundation is mainly active
Grants/Assets	Grants divided by total assets in 2010
Fob	If it is a Foundation of Banking Origin
Community	If it is a Community foundation

Table 2 - Descriptive statistics

PANEL A – Descriptive statistics for the sample of 110 Italian foundation

variable	mean	sd	p5	p25	p50	p75	p95
PSC	3.37	1.35	1.84	2.34	3.12	4.09	6.28
Screening	0.52	0.34	0.00	0.00	0.75	0.75	1.00
Fundraising	0.25	0.27	0.00	0.00	0.25	0.50	0.75
Projects	0.54	0.24	0.34	0.34	0.42	0.75	0.92
Social	0.16	0.23	0.00	0.00	0.00	0.25	0.50
Diversity	0.44	0.20	0.14	0.43	0.43	0.43	0.86
Process	0.34	0.11	0.19	0.26	0.33	0.42	0.52
Effectiveness	0.18	0.23	0.00	0.00	0.00	0.25	0.50
Committee	0.47	0.84	0.00	0.00	0.00	1.00	2.00
Leadership	0.62	0.40	0.00	0.25	0.50	1.00	1.00
Size	0.29	0.15	0.11	0.19	0.26	0.33	0.59
Environment	10.20	0.17	9.80	10.14	10.23	10.32	10.44
Grants/Assets	1.70	13.67	0.01	0.02	0.04	0.22	2.57
Fob	0.46	0.50	0.00	0.00	0.00	1.00	1.00
Community	0.17	0.38	0.00	0.00	0.00	0.00	1.00

(segue)

PANEL B – Mean value of the variables analysed for each philanthropic model based on PSR						
Variable	0	1	2	3	4	6
<i>Number of foundations</i>	30	30	31	13		
Screening	0.00	0.73	0.74	0.67		0.67
Fundraising	0.13	0.00	0.52	0.40		0.33
Projects	0.65	0.46	0.35	0.80		0.74
Social	0.28	0.08	0.06	0.17		0.50
Diversity	0.48	0.42	0.41	0.32		0.69
Process	0.35	0.32	0.29	0.41		0.47
Effectiveness	0.28	0.08	0.03	0.42		0.42
Leadership	0.28	0.80	0.97	0.33		0.21
Committee	0.43	0.33	0.55	0.85		0.17
Size	0.24	0.29	0.35	0.29		0.22
Enviroment	10.21	10.21	10.20	10.23		10.09
Grants/Assets	0.18	5.26	0.75	0.04		0.03
Fob	0.80	0.27	0.03	0.92		1.00
Community	0.00	0.17	0.42	0.08		0.00

Univariate analysis

To provide an initial assessment of our hypothesis, Table 3 reports Pearson correlations. While board *Diversity* is not significantly related to the philanthropic strategy score (PSC), governance processes (*Process, Committees and Effectiveness*) and the CEO's leadership (*Leadership*) is positively related to it. The other philanthropic strategy variable (PSR) is marginally positively associated with board processes.

Table 3 - Pearson Correlations

		1	2	3	4	5	6	7	8	9	10	11
1	PSC	1.00										
2	PSR	0.75***	1.00									
3	Diversity	0.01	-0.02	1.00								
4	Process	0.44***	0.17**	0.11	1.00							
5	Effectiveness	0.40***	0.11	0.07	0.40***	1.00						
6	Committee	0.15	0.07	0.01	0.07	0.00	1.00					
7	Leadership	-0.10	0.12	-0.13	0.30***	-0.52***	-0.01	1.00				
8	Size	-0.02	0.10	0.04	-0.03	-0.15	0.12	0.17	1.00			
9	Enviroment	-0.06	-0.08	-0.04	0.04	-0.06	0.00	0.02	0.21**	1.00		
10	Grants/Assets	-0.08	-0.03	-0.01	-0.03	-0.09	0.06	0.12	0.03	0.04	1.00	
11	Fob	0.23**	-0.03	0.07	0.35***	0.63***	-0.05	-0.78	-0.37***	0.05	0.11	1.00
12	Community	-0.01	0.15	0.02	-0.14	-0.30	0.03	0.32	0.72***	0.11	0.05	0.42***

Significance levels: * p<0.10, ** p<0.05, *** p<0.01

Multivariate analysis

In order to test our hypotheses, we implement OLS regressions (Columns 1-3) and ordered logit models (Column 4-6) (see Table 4). In particular, we test the association between philanthropic strategy and governance characteristics using a continuous score (PSC) (Columns 1-3) and a discrete variable (PCR) (Columns 4-6). In addition, we perform stepwise procedure (inclusion p-value equal to 0.1) in order to isolate only significant factors (Columns 3 and 6). Controlling for different aspects (environment, foundation type and resources used), including board size (*Size*), we find that governance processes and the CEO's leadership seems to have a role in determining the philanthropic strategy adopted.

Using a continuous proxy for philanthropic strategy (Columns 1-3) *Diversity* is not significantly positively associated with higher score in philanthropic strategies therefore *Hyp1* is not supported. Governance processes measures (*Process*, *Committees* and *Effectiveness*) are significantly positively associated with higher score in philanthropic strategies therefore *Hyp 2* is supported. *Leadership* is significantly positively associated with higher score in philanthropic strategies therefore *Hyp3* is partially supported. Using a discrete proxy for philanthropic strategy (Columns 4-6) the analysis confirms only the importance of board processes and CEO power in shaping more evolved philanthropic strategies.

Table 4 - Coefficients of OLS regressions and multi-ordered logit models studying the association between philanthropic strategy and governance features

	(1)		(2)		(3)		(4)		(5)		(6)	
	PSC	OLS	PSC	OLS	PSC	Stepwise	Order-logit	PSR	Order-logit	PSR	Stepwise	PSR
Diversity	-0.213 (-0.28)	-0.242 (-0.31)										
Process	4.08*** (3.08)	4.12*** (2.99)	4.05*** (3.07)									
Effectiveness	2.1*** (2.86)	2.01** (2.27)	2.09*** (2.83)									
Committee	.207* (1.79)	.227* (1.92)	.212* (1.90)									
Leadership	.638* (1.75)	.774 (1.57)	.67* (1.83)									
Size	-0.234 (-0.04)	-0.773 (-0.69)										
Environment		-0.485 (-0.71)										
Grants/Assets		-0.00478*** (-2.82)	-0.00629*** (-5.71)									
Fob		.288 (0.57)										
Community		.636 (1.64)										

(segue)

	(1)	(2)	(3)	(4)	(5)	(6)
	PSC	PSC	PSC	PSR	PSR	PSR
	OLS	OLS	Stepwise	Order-logit	Order-logit	Stepwise
constant	1.21* (1.97)	6.06 (0.88)	1.11** (2.07)			
cut1						
constant				1.67 (1.05)	-8.35 (-0.69)	1.38 (1.53)
cut2						
constant				3.03* (1.86)	-6.97 (-0.57)	2.73*** (2.79)
cut3						
constant				4.52*** (2.68)	-5.45 (-0.45)	4.17*** (3.92)
cut4						
constant				5.83*** (3.54)	-4.14 (-0.34)	5.43*** (4.98)
N. of cases	110	110	110	110	110	110
R ² adj /pseudoR ²	0.26	0.25	0.27	0.05	0.06	0.04

Std. Err. adjusted for clusters

t-statistics in parentheses

* p<0.10, ** p<0.05, *** p<0.01

Since some relation could be not linear, Table 4 – Panel A reports the analysis of the mean difference of the research variables between two groups using 5 groups (from 0 to 4). The analysis shows low evolved philanthropic strategy groups (1 and 2) are characterized by high CEO leadership (*Leadership*) respect to the lowest benchmark (0) and the more evolved philanthropic strategy groups (3 and 4). Moreover, low evolved philanthropic strategy groups (1 and 2) are characterized by lower level of board effectiveness (*Effectiveness*) respect to the lowest benchmark (0) and the more evolved philanthropic strategy groups (3 and 4).

The more evolved philanthropic strategy groups (3 and 4) seems to have implemented more board processes (*Process*) respect to low evolved philanthropic strategy groups (0, 1 and 2). In addition, the most evolved philanthropic strategy groups (4) is characterized by higher board diversity (*Diversity*) respect to all the other groups (0, 1, 2 and 3).

Summing up, it seems that low evolved philanthropic strategy groups (1 and 2) have stronger leadership than the lowest benchmark (0); while the more evolved philanthropic strategy groups (3 and 4) have a weaker leadership along with more effective board and strong processes. In addition, board diversity seems to play a role only in differentiating the top benchmark (4) from the other groups. The heterogeneity of competencies seems to be an element which helps foundation to adopt more challenging strategic approaches. This is in line

with Nicholson *et al.* (2012), who stated that different kinds of knowledge that board members bring to the board are important also in nonprofit setting decision making.

Since our classification procedure might be influenced by misclassified foundations, as robustness check, in Table 4 – Panel B we replicate the analysis of the mean difference of the research variables between two groups using only 4 groups (from 1 to 4). Such groups are identify using the following procedure:

PSR = 4 if *fundraising* >0 and *projects* >0.5 and *social* >0

PSR = 3 if *fundraising* >0 and *projects* >0.5

PSR = 2 if *fundraising* >0

PSR = 1 all the others

This new classification distributes the 30 foundations previously classified as the bottom benchmark (0) in the following way: 19 to type 1; 3 to type 2; 3 to type 3; and 5 to type 4. Results reported in Panel B and untabulated results using Wilcoxon rank-sum test, implemented for both panel, remain qualitatively the same.

Table 5 Panel A - t-tests on mean difference between two groups using 5 groups (from 0 to 4)

		Positive difference between the group in the column and the group in the row				
		0	1	2	3	4
Negative difference between the group in the row and the group in the column	0		+Leadership	+Leadership	+Effectiveness	+Process +Diversity
	1	-Effectiveness		+Leadership	+Process +Effectiveness <i>+Committee</i>	+Diversity +Process +Effectiveness
	2	-Effectiveness -Process			+Process +Effectiveness	+Diversity +Process +Effectiveness
	3	-Diversity	-Leadership -Diversity	-Leadership -Diversity		+Diversity
	4		-Leadership	-Leadership		

All the difference between two groups of research variables (*Diversity, Process, Effectiveness, Leadership, Committee*) are investigated. Only significant differences are reported: normal $p < 0.10$, italics $p < 0.05$, bold $p < 0.01$. Using Wilcoxon rank-sum test the results remain qualitatively the same.

Table 5 Panel B – t-tests on mean difference between two groups using 4 groups (from 1 to 4)

		Positive difference between the group in the column and the group in the row			
		1	2	3	4
Negative difference between the group in the row and the group in the column	1		+Leadership	+Effectiveness +Process	+Diversity +Process +Effectiveness
	2	-Effectiveness		+Process +Effectiveness	+Diversity +Process +Effectiveness
	3	-Leadership	-Leadership		+Diversity
	4	-Leadership	-Leadership		

All the difference between two groups of research variables (*Diversity*, *Process*, *Effectiveness*, *Leadership*, *Committee*) are investigated. Only significant differences are reported: normal $p < 0.10$, italics $p < 0.05$, bold $p < 0.01$. Using Wilcoxon rank-sum test the results remain qualitatively the same.

5. Conclusions

This paper examines the role that effective governance plays in driving the strategies of grant-giving foundations as it relates to supporting various types of charitable and philanthropy activities of public interest.

Taken together, the results support the view that a governance system in which a board diversity co-exists with strong board processes is associated with a more sophisticated strategic approach. Moreover, complex strategic decisions are taken in foundations with trusted and active CEO and effective decision processes.

Our results are important for many reasons. First, they show that high-working boards increase the interaction between foundations, local expertise, and community stakeholders. In fact: better governance processes, larger number of committees and higher board effectiveness in changing foundations policies are associated with more complex strategic approaches, meaning a stronger interaction with beneficiaries and other players (other funders, other donors, other institution involved in complex projects, etc.). Second, they shed lights on the advantages and limits of powerful CEO (often acting as both Chairmen & CEO in the Italian context), who could bring small foundations with low assets to a more complex strategy and larger foundations to a more institutional giving rather than implementing a more simple charitable approach. These results can be important for

foundations members and for regulators willing to increase the effectiveness of the grants made by these important social bodies.

Notwithstanding our effort to curb possible limitations, those that remain qualify this study as exploratory in nature. First, the sample is limited to 110 observations and the Italian nature of the study might limit its magnitude. It would be interesting to further test the CEO leadership in other national contexts where foundations have a stronger funding body than Italians banking, family, company or community endowment. Second, the CEO Leadership in Italy could be analyzed more fully if future research will look at archival data on the actual governance procedure. Third, the potential endogeneity between philanthropic strategy (our dependent variable) and governance (our independent variable) is difficult to treat because of the absence of instrumental variables.

While this paper accomplishes the goal of testing the hypothesized association between governance and a four-tier hierarchized strategy, future research may dig more deeply into this topic analyzing the role of governance in optimizing the creation of higher social value for each euro/dollar spent by a foundation comparing with the same euro/dollar spent by an individual donor.

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Printed by
Gi&Gi srl - Triuggio (MB)
March 2014

ISBN 978-88-343-2800-2



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