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The voluntary reporting in Italian bank foundations

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The voluntary reporting in Italian bank foundations

Abstract

In the Italian nonprofit field, bank foundations face an increasing demand to account for their grant activity in forms that go beyond traditional financial statements. Consequently, bank foundations have developed specific reports in accordance with a 2001 Italian law that requires a mission report to be included within financial statements. This study investigates the peculiarities of social reporting documents in terms of standards used and formal characteristics, revealing different adoption levels. Contributing to an ongoing debate, the analysis of the reporting practices underlines how the due by law on social accounting could hamper the disclosure in nonprofit organizations.

Keywords: accountability, social responsibility, social reporting, nonprofit, mission report

Introduction

The substantial role of bank foundations in the production of social and economic benefits in Italy has drawn research attention regarding how they report on the social results thus obtained (Anheier, 2001; Bottiglia, 2003; Ostrower, 2006). These institutions, which arose from a legal provision, have constrained capital resources to pursue social and economic development (Leardini, Rossi, & Moggi, 2014; Salomon & Anheier, 1997); their purpose is not profit but rather the satisfaction of social needs among persons other than those who provide the funds. Accordingly, local communities and legislative bodies (Herzlinger, 1996) need to identify appropriate tools to measure the results obtained by institutional foundations and assess their ability to pursue social goals. In addition to well-known economic and financial reporting tools, nonprofit organizations need methods that ensure their effective communication with and accountability to stakeholders (Leardini & Rossi, 2010).

Some documents developed in a for-profit setting can be adapted to meet the needs of nonprofit organizations, such as financial statements that reflect regulations associated with bank foundations and social reports. Other forms instead, like the mission report, are typical of the nonprofit context and are designed to meet the needs of stakeholders with particular information needs (Bruni, 1997; A. Hinna, 2002).

This study focuses on accountability in bank foundations and investigates the peculiarities of social reporting documents in terms of the standards used and formal characteristics, and reveals different adoption levels. The research shows that social reporting is poorly developed in Italian bank foundations and that mission reports result mainly from legislative requirements.

Accountability in bank foundations

Nonprofit organizations, by their very nature, have some unique characteristics, such as a social purpose, an emphasis on values and ethical principles, unique economic and financial aspects, the availability of resources obtained through fundraising, and sharing and trust (Matacena, 2006; Siboni, 2011). Trust represents a key resource, because nonprofit organizations can raise funds only if they establish a high level of trust and disclose how they use the resources they collect (Bagnoli & Megali, 2011; Bouckaert & Vandenhove, 1998; Villani & Zarri, 2005).

According to game theory, nonprofit organizations also must trigger a trust game so that people who support the activities of these foundations enjoy a high degree of transparency about how the organization uses funds and selects projects for funding (Berg, Dickhaut, & McCabe, 1995; Musella & D'Acunto, 2000). A foundation that earns trust has a motivation to make its accountability and external reporting more effective. Trust offers a strategic means to retain support for the foundation over time, which in turn suggests the importance of tools that support trust, including accountability.

Whereas particular values in business ethics and style help define corporate images and company policies (Zadek, 1998), third-sector organizations employ another set of principles and values to constitute the content of their activity. All economic activities serve to support the organization in achieving its objectives: the sale of books and organization of events to pay for campaigns, or managing a club to offer members of the community a place to socialize.

Nonprofit organizations, in particular bank foundations, generally enjoy the confidence and respect of the community and special legislative treatment, because their inherent focus is social responsibility. In particular, the bank foundations can be defined as socially responsible to the extent that they

- Demonstrate a balanced level of attention to all stakeholders, internal and external, as legitimate and diverse.
- Use suitable tools to organize, manage, and communicate the impact of their activities not only with regard to social and environmental development but also in economic and financial terms, while adhering to the principles of sustainable development.

Italian bank foundations are unusual nonprofit organizations, though, in that they manage large estates and naturally tend to produce financial statements. Furthermore, the direct involvement of all stakeholders is not always easy, considering the type of activities instrumental to the pursuit of foundation's social mission: grant-making activity and asset activity (Capaldo, 1996; Leardini, 2005). Finally, Italian bank foundations are private organizations that gain reputations through their work. In this respect, foundation stakeholders can have both positive and negative impacts (Fombrun & Gardberg, 2000; Pedrini & Minciullo, 2011).

Bank foundations devoted to social needs (Anthony, 1980) tend to focus on specific sectors (e.g., healthcare, recreational, cultural, religious, sports). Their purpose is to increase asset value over the long term while achieving social objectives through effective and efficient uses of available resources (Isaac, Schmidtz, & Walker, 1989; Rusconi, 2004).

Two dimensions of accountability

In bank foundations, accountability is critical and is based on trust and legitimacy. It comprises two dimensions: internal and external (Leardini & Rossi, 2010). Accountability depends on the process individuals and organizations use to realize their actions. The internal dimension refers to the acceptance of responsibility for establishing and maintaining a continuous mission aimed at attaining strategic objectives and performance (Christensen & Ebrahim, 2006; Unerman & O'Dwyer, 2010). The external dimension derives instead from a contractual view of the organization, such that any subject may be called upon to account for its actions. The organization must be accountable and responsible to others (Andreaus, 2007; Cornwall, Lucas, & Pasteur, 2000). Bank foundations in particular need to define who their institutional stakeholders are, namely, who benefits directly from disbursements, and what must be reported to the board. The interests of local communities must be represented on the board, as provided by law. These representations should be rooted in the location, as well as in expressive, historical traditions that relate to the foundation of the organization.

Recipients of external accountability include both public and private subjects, which in turn comprise different types according to specific legal and institutional natures. Most beneficiaries are private, including foundations and associations, religious institutions, volunteer organizations, and social cooperatives. At the same time, foundations contribute to local public bodies, such as schools, universities, or healthcare organizations (Leardini et al., 2014).

Transparency about the activities of bank foundations—from planning to reporting the results, particularly with reference to the grant-making activity—is essential for building relationships with the local community, where foundations serve as a driving force in the local development through synergies among various public and private actors. Local governments, religious institutions, and nonprofit organizations can thus be more than external stakeholders and become partners in a project. This situation suggests the potential appeal of a multi-stakeholder approach.

For the internal dimension of accountability, bank foundations must justify their decisions and actions as well as the consequences of those actions for the local community. To this aim, it is not sufficient to provide information on results. The foundation should also prepare a strategic plan that acknowledges various information needs associated with different policy areas, to which the foundation seeks to respond through its activities, as well as the resources that will be used (Herzlinger, 1996; Najam, 1996).

The path to accountability in bank foundations could thus be cleared, in terms of content and meaning, if it featured a quest for transparency and accountability in the grant-making processes. The greater the efforts to clarify priorities, activities, and criteria for project selection, as well as the costs and timing of implementation, the more easily the foundation can fulfill its responsibility to report to the community. The search for more comprehensive models for reporting and increasing attention to the variety of stakeholders are symptomatic of the search for legitimacy (Dart, 2004), attained not through self-referential tools but rather by seeking effective accountability (Cornwall et al., 2000; Ebrahim, 2003; Ospina, Diaz, & O'Sullivan, 2002).

Critical aspects of financial reporting

As known, the outcome for nonprofit organizations differs from that of for-profit organizations. Whereas corporate performance is measured by income, nonprofit organizations must communicate the results of their management, focusing on the efficient distribution of wealth or the provision of services to the community. Profit, if present, is an instrument of management, rather than a target. Traditional financial statements thus lose some of their importance, in that they cannot describe real indicators of nonprofit organizations' outcomes.

In terms of external accountability, the tools that foundations typically use to communicate their results consist of documents required by law (financial statements) and documents whose publication is optional, though recommended by the Association of Foundations of Bank Origin (ACRI) (Rusconi, 2004). Decree 153/99 and subsequent acts detail the necessary financial statements (balance sheet, income statement and notes) and attached report. This set of documents must make transparent the economic and financial profiles of activities carried out, as well as "give an account of the mode of realization of the strategic mission and operational activity"(ACRI, 2005; p.5). The key task of financial statements is to provide a clear, truthful, and fair presentation of the asset situation and financial and economic results. This system of records gives a summary of the foundation, in terms of both its asset management and grant-making management. The documents contained in financial statements typically are accounting forms, such that the data entail high levels of technicality. A management report completes the financial statements and provides descriptive detail about the management of assets, social objectives pursued by the foundation, and interventions. This document should increase the sense of ownership and legitimacy in the local community.

The limits attributable to external accountability (financial reporting) stem from two main factors. First, the legal reporting requirements are often inadequate in terms of describing the organization, structure, and transparency of data. It follows that information about specific interventions spread across the notes and the balance sheet, which creates disorientation in relation to the reporting requirements. Second, regarding the nature, type, and quantity of information to be disclosed to the public, the foundation should not be exempt from the need to identify the cognitive needs of the recipients of that information. The qualitative and quantitative data that describe the activities and performance of the foundation must be expressed in clear, transparent, and comprehensive language to ensure understanding of the meaning and implications among many possible audiences, such as local community. To this aim, faithfulness and professionalism in writing these reports are very important.

If a bank foundation limits financial reporting, it risks:

- Inadequate valorization of grant-making activity;
- an unclear distribution of available resources;
- difficulties in evaluating if its efforts are appropriate for the community;
- an assessment conducted almost exclusively on the basis of financial parameters, typical of the companies but not directly applicable to nonprofit companies;
- crises of confidence among external stakeholders due to a lack of transparency;

- crises of confidence among internal stakeholders because of the deviation from institutional purposes; and
- loss of competitive advantage over other organizations.

The design and construction of financial reporting also should not be confined to that which is required by law, because then it would not be representative of the true activities of the foundation in terms of social utility (L. Hinna, 2000). Supplementary reporting tools can bridge the gaps in reporting requirements established by legislatures.

Social reporting in Italian bank foundations

Social reporting in the nonprofit world aims to measure strategically important dimensions, beyond the limitations of data provided in financial reporting. The need to report social and environmental dimensions, relationships with stakeholders, and the holistic implications of the organization has stimulated a search for models that can meet these information needs (Bauer & Fenn Jr, 1973; Carroll, 1979; Wood, 1991).

The different documents and related framework for social accountability in nonprofit organizations are very heterogeneous. Social accountability comprises social report, mission report, mandate report, sustainability report, and integrated reporting. The first two types are the most common in the Italian bank foundations. Although some bank foundations provide mandate reports, in practice this multiyear report refers mainly to the mandate of leadership (Pollifroni, 2007). The sustainability report, which is more prevalent in international enterprises (KPMG, 2013), has been adopted widely, largely due to the detailed voluntary guidelines available about producing this document, such as Global Reporting Initiative Guidelines (GRI, 2011). Finally, integrated reporting is still being tested but already appears in some large organizations' reports; it provides a single, integrated report that includes economic, financial, social, and environmental results and supports governance (R.G. Eccles & Krzus, 2010; Robert G. Eccles & Saltzman, 2011).

Among Italian bank foundations, the first example of social reporting appeared in 1998, with the publication of a mission report; in 1996, the ACRI suggested a ratio that could denote how financial statements describe the philosophy of approach to the evaluation of measurement common to all nonprofit organizations. The rise of this kind of documents is not surprising, because of foundations' need for accountability and transparency regarding the reporting about their grant-making activities and the use of resources.

However, the original legislative framework for mission reports was vague. Decree 153/99 specifies that the management report should show "in the section on the social objectives pursued by the foundation and the activities performed, highlighting the achievements against the various categories of recipients." In 2001, further legislation specified that the management report should be divided into two sections: economic and financial report and mission report (Tieghi, 2002). The latter was required to include the following minimum content:

a) The statement of disbursements made during the year, including the composition and movements of funds for organizational activities and disbursements.
b) The social goals of the intervention sectors and the results obtained for specific target groups (institutional stakeholders).
c) Fundraising activity.
d) Assistance provided directly by the foundation.
e) The list of related institutions.
f) The instrumental activities of enterprises performed directly by the foundation.
g) Criteria for identifying and selecting projects to be funded for each policy area.
h) Funded projects, distinguishing those financed with other sources.
i) Multiyear projects and supported initiatives and related commitments.
j) The development of social programs by the foundation.

The ninth report of the ACRI (2004) also offers a model mission report integrating the legal requirements. It suggests three main sections: the identity, the use of assets, and institutional activity. This proposal recommends that reporting bank foundations should:

- Design a reporting system to collect quantitative and qualitative results.
- Find suitable ways to evaluate the effectiveness of interventions.
- Adopt models of social reporting that can represent, clearly and completely, the multiple dimensions of a bank foundation.

ACRI (2004) also underlined that the reporting must take place in accordance with efficient cost-control initiatives.

Thus for bank foundations, social reporting is not simply an alternative form of reporting but rather the most suitable means to describe their activities fully. Unlike its role in for-profit organizations, social reporting offers a tool to understand and communicate the nonprofit organization's effectiveness and efficiency in terms of achieving its objectives. It helps demonstrate internally if policies have been effective; externally it improves trust in the organization. If properly used inside and outside the foundation, social reporting can ensure transparency about:

- Management, by communicating information aimed at assessing the economic constraints.
- Administration, by communicating information designed to verify the order of the regulatory and statutory constraints.
- Institution, by communicating information aimed to control the pursuit and achievement of institutional goals (Matacena, 2002).

Although a fine line distinguishes the mission report from the social report, they have different origins and meanings. The mission report was established and is used only for nonprofit organizations; the social report was created to represent noneconomic dimensions in for-profit organizations. Hinna (2005) argues that the generic use of the term "social report" is easier to understand. For the "mission report," experts must recall the true nature of the document: accountability is inherent to the foundation's mission and therefore the focus of institutional goals.

This analysis of legislation and the procedure proposed by ACRI highlights how the mission report focuses on the description of conditions and actions that are pivotal to the achievement of the foundation's institutional purpose. This report thus may be important only to institutional stakeholders while excluding other stakeholders that may be affected indirectly by the foundation's activities. For example, if a foundation funds the restoration of a church, the regulatory institutional stakeholder is the vicarage or parishioners. In contrast, a broader stakeholder approach, such as that proposed in social reports, would identify many more stakeholders, such as the community, tourists who visit the site, and even future generations.

The most important distinction between the mission report and the social report is the lack of a multi-stakeholder approach (Barrett, 2001; Fazzi, 2012), which ensures the ex-ante and ex-post involvement of the stakeholders with an interest in the reporting. Bank foundations are usually characterized by a multitude of stakeholders, and they cannot be accountable only to certain privileged subjects or ignore the existence of the vast stakeholders to which they relate, for both ethical and strategic reasons. The ACRI model refers only to mission stakeholders (institutional), though, ignoring employees, volunteers, or the local community, as well as any people who are only indirectly influenced by the foundation.

The broader logic of social responsibility asserts that the exclusion of stakeholders from different social reporting leads to unsatisfactory accountability. An incomplete picture of the activities and their consequences leads to a growing risk that the mission report becomes self-referential.

Social reports may be a better instrument for granting legitimacy to the institution. They meet the information needs of stakeholders, giving them tools to make a valid judgment, and favor solid relationships marked by sharing, trust, and dialogue supported by expert knowledge. Furthermore, social reports allow the organization to evaluate its own results systematically and then develop improvement strategies.

Nonprofit organizations prepare social reports for the following reasons:

- organize reflections, documentation, and data already present or newly discovered;
- recognize values and formalize activities;
- identify possible improvements and processes;
- ensure a concise, comprehensive organization (very useful to facilitate the fundraising); and
- support relationships of trust with stakeholders.

In this sense, it is important for bank foundations to offer clear and readable descriptions of their programs and goals in their social reports. These efforts can increase the transparency and effectiveness of communication, help the organization remain competitive in its search for financial resources (fundraising), and increase the legitimacy of its actions (Balser & McClusky, 2005; A. Hinna, 2002).

Methodology

In order to analyze social reporting in Italian bank foundations, we consider the entire population, which consists of 88 organizations. The analysis is conducted with a synchronic approach and pertains to the most recent reporting documents available (2010/2011). If no recent reporting was available, we analyzed the existing situation to monitor the organization's progress. Thus we reviewed approximately 100 heterogeneous documents related to Italian bank foundations. To gather the latest financial statements, mission reports, and social reports, we sought information (1) directly from the websites of foundations, (2) from the official website of ACRI, and (3) through requests mailed to the secretariats of each foundation.

Mission reports by Italian bank foundations

Although the mission report is a tool provided by law (Decree 153/99) for Italian bank foundations, 10 of the 88 foundations did not provide such a report, and only two of those had replaced the report with a more comprehensive social report. Our analysis of the documents in terms of usability and self-identity revealed that more than 23% of the foundations prepared a separate document to describe their financial statements, even though the law provides for the inclusion of this information within the mission report. Imposing a social reporting instrument thus has spread reporting across various levels. As Figure 1 shows, we identified four different adoption levels (Secchi, 2006), according to the types of reporting encountered in the sample of 78 foundations that provide mission reports. The four levels are:

- Law level. The mission report is limited to the requirements in the 2001 legislation and uses simple methods, such as tables, to provide brief summaries, as required by the law.
- Simplified ACRI model. This version is simpler than the model proposed by ACRI in 2004, which included full sections (identity, employment equity, and institutional activities). This level is modeled on that approach but does not include all the sections proposed.
- ACRI model. Full description of the scheme proposed by the body in 2004, sometimes strictly, using the three sections provided and subsections, to which we refer later.
- Expanded ACRI model. In addition to the model proposed by ACRI, this level includes additional information that is not required, making the document more similar to social reports. In some cases, the structure corresponded to the model ACRI and considers not only primary stakeholders but also other groups of stakeholders.

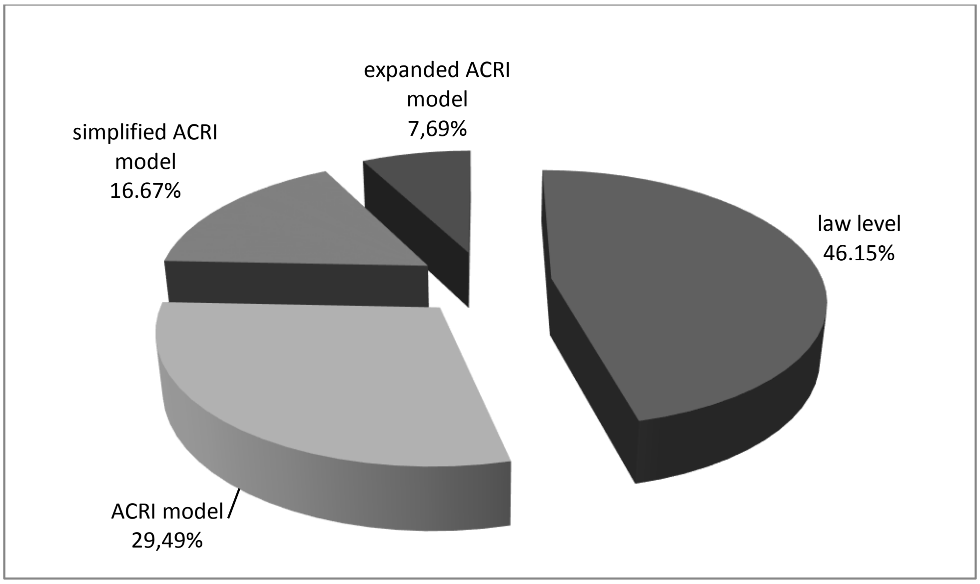

Figure 1. Application level of mission report

The results of the analysis (see Figure 1) reveal the high prevalence of limited mission reports at the law level, which is characterized by challenging readability in the data, presented as synthesis schemes with little detailed description. At this level, we identified 36 foundations (46.15%) that did not even meet all the disclosures prescribed by the regulations.

The foundations that apply a simplified ACRI model (n = 13) accept a slightly higher level of accountability, yet the reports often fail to describe asset management, such that they are incomplete and self-serving.

The proposed ACRI model is still relatively easy to build, so nearly 30% of Italian bank foundations follow these guidelines. These 23 foundations have decided to make their mission reports autonomous from the financial statements. It is an important signal to evaluate the relevance of this document. We find, in an analysis of the relevant documents at this level, that the foundation often does limited work to build the model, departing only minimally from the model proposed by ACRI. In this case, it appears as if the goal is to fulfill a moral obligation and improve the foundation's image.

In light of the foregoing discussion, it should not be surprising that a limited percentage (7.69%) of foundations added supplementary material beyond the ACRI model. These six foundations submit their mission report separately from their financial statements, and the document contains not only all required information but also data that would facilitate reading the document, including additional descriptions. This level thus implies greater awareness of the instrument, its purpose, and its potential.

Table 1 presents the distribution of the various levels by organization size, using the classification established by ACRI. This representation synthetically indicates the distribution of the various levels of application; it does not seem to correlate at all with the size of the foundation. Not even the largest foundations are exempt from poor applications of the model or exclusion of the mission report from financial statements.

	Foundation Size											
Application Level	Large		Medium-Large		Medium		Medium-Small		Small		TOTAL	
	N	%	N	%	N	%	N	%	N	%	N	%
Law level	5	27.8	4	23.5	9	50.0	11	64.7	7	38.9	36	40.9
Simplified ACRI model	5	27.8	3	17.6	-	-	2	11.8	3	16.7	13	14.8
ACRI model	3	16.7	9	52.9	3	16.7	3	17.6	5	27.8	23	26.1
Expanded ACRI model	2	11.1	-	-	3	16.7	1	5.9	-	-	6	6.8
No mission balance	3	16.7	1	5.9	3	16.7	-	-	3	16.7	10	11.4
Total	18	100.0	17	100.0	18	100.0	17	100.0	18	100.0	88	100.0

Table 1. Application levels by foundation size

The analysis of each document highlights a sort of leveling out in the application of rules and ACRI models. The use of the mission report seems often to be only a legal obligation.

Social reports in Italian bank foundations

Models for social reports, developed in the for-profit context, have undergone considerable evolution over time, through both public and private initiatives (Gray, 2001; Pucci & Vergani, 2002). Thus we find substantial heterogeneity in the application of these voluntary standards, as confirmed by the type of reports released by bank foundations.

Unlike a survey developed by Farneti et al. (2010) we found six social reports provided by foundations: five social reports and one integrated report. Because the voluntary nature of social reporting allows freedom in the way organizations draft the documents, it becomes impossible to compare such documents with one another. Although this diversity creates some confusion, it also allows each organization to shape the document according to its information needs and thus better inform its stakeholders. Five reports refer explicitly to a multi-stakeholder approach, but the approaches remain limited mostly to targeted communication assigned to different categories, without sharing the mission and strategies with stakeholders (beyond institutional), which seems to miss the real purpose of social reporting.

Standard	N
GBS (study group)	2
IBS (European model)	1
AA1000 standard	1
ACRI model	2
Principles of chartered accountants for the social report in NGO drafting	1
ONLUS guidelines for the social report in NGO drafting	2
Integrated reporting	1

Table 2. Different standards in social reports

The standards used, as outlined in Table 2, are varied; four cases also refer to at least two different reference standards. To identify which standards the organizations used, we analyzed methodological notes and the structure of the documents. The methodological notes reveal the continued lack of a comprehensive standard for such organizations and limited knowledge of the standards available. None of the foundations that published a social report appointed GRI standards, the most widely used international standards, even for nonprofit organizations. Instead, they widely embrace the IBS (European Institute for Social Report) standard, which was among the first in Europe to propose a structure for the social report. Two foundations indicated that the GBS (Group of Research on Social Report) standard inspired their reporting; this standard uses some features of the IBS standard, and its initial release in 2001 was an important social reporting milestone in Italy. Both standards were born for companies in 2001. In 2009, GBS published the document of research n.10 for social reports in nonprofit organizations.

Despite the fact that Accountability 1000 (AA1000) was designed initially for the world of for-profit firms, some foundations in our sample based their reporting on this standard process developed by ISEA (Institute for Social and Ethical Accountability) to improve business performance and the quality of accounting, auditing, and social reporting. In addition, a foundation indicated not only the reporting process standard but also the stakeholders' engagement (AA1000, 2005), which was anomalous with all other foundations in our study.

Only two claimed they had followed the ACRI guidelines. In these two cases, they publish a social report but not a mission report. In the other cases, the organizations duplicated the information—even in financial statements. Finally, we identified an unexpected example of integrated reporting: The foundation chose to enrich the documentation required by law by collecting vast documents and providing an easy-to-read summary for each paragraph.

Despite the few examples available, these documents indicate that the foundations in our analysis take a broad vision of accountability, without worrying about showing off their use of resources to external parties. This attitude can be very useful in terms of establishing legitimacy, as well as making up for the lack of information in the mission report.

Conclusions

The importance of social accountability in nonprofit organizations must not be underestimated. It cannot be dismissed as ancillary reporting; rather, it represents a valuable tool to confirm that nonprofit organizations do not earn profits and maintain the trust of stakeholders, while also attracting new stakeholders and providing the board with information that supports strategic choices. More generally, though, the aim of social reporting by Italian bank foundations currently appears to be to legitimize their actions, using only one-way communication. Feedback processes are not in place, whether we consider mission reports, social reports, or integrated reporting.

The legislative decision to require mission reports within financial statements has led to a proliferation of such documents that merely seek compliance with the accounting laws. However, the model proposed by ACRI demonstrates how a reference signal can guide the constitution of voluntary reporting. This version aligns with the law and also offers an acceptable solution for meeting the accountability demands of institutional stakeholders.

As we have noted, the main limitation of this type of reporting is its inability to consider a multi-stakeholder approach, such that it seems limited to those directly affected by the foundation's disbursements. Our data reveal that very few foundations voluntarily issue social reports that provide a broader view of the work of the foundation. Even in these cases, the reports rarely are uniformly presented to all stakeholders.

Another problem pertains to the use of external consultants to help prepare these documents (in four of the six foundations). If external consultants take the place of persons who work actively for the foundation, the social report loses its functional significance in relation to governance strategies and instead becomes a mere instrument of communication. Although communication is useful to increase the level of external accountability, it has little effect on internal levels.

As known, there is an ongoing debate as to whether it is better to impose a law or to keep this reporting practice voluntary (Cooper & Owen, 2007). With the aim of enriching studies on social accounting in NPOs, this research provides some insight regarding the consequences that a law requiring social reporting could have on the level of disclosure given to stakeholders. On one hand, the law would guarantee a minimum level of accountability for social aspects, on the other hand; this commitment limits the depth of reporting and hampers the development of more whole reporting documents such as social reports.

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