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Does historical cost accounting affect foundation payout policy? - Empirical evidence from Finland

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Abstract

OBJECTIVES OF THE STUDY

The main purpose of the study is to study whether the choice of financial reporting approach has a significant relationship to the payout of Finnish grant-making foundations. As motivation for the study were the scarcity of prior research of the subject and the less addressed economic importance of Finnish non-profit sector. The impact of financial reporting approach is examined using the book-to-market ratios of the grant-making foundations.

DATA AND METHODOLOGY

The main sample used in this study consists of 218 fiscal years and 109 foundations during fiscal years of 2010 and 2011. The foundations represent the largest grant-making foundations extracted from the database of 200 largest foundations in Finland. The organizational and financial data is mostly derived from a database compiled in 2014 for research and law reform of the Foundations Act in 2015. This database was furtherly checked and complemented using the financial statements as the main source of information and data. Ordinary Least Square regression is used to examine the connection between payout, determined as the scaled amount of annual distributions and independent variables, which are foundation specific determinants of payout.

RESULTS

The results of the conducted regression analysis show no significant relationship between book-to-market ratio and annual payout of foundations. Thus, the effect of choice of financial reporting approach is not comprehensively confirmed. The results show that scaled market value of assets and revenues have significant and strong positive relationship with payout. General support had a significant but not a strong relationship with payout. Upon the results, the suitability of payout theories could not be confirmed regarding the payout policy of Finnish grant-making foundations. Additional analysis shows us that between different industries, there is an effect on the association between payout and determinants of the payout.

Keywords payout ratio, historical cost accounting, third sector, grant-making foundation

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Työn nimi Vaikuttaako tilinpäätöksen varojen arvostaminen kirjanpitoarvoonsa säätiöiden varojenjakopolitiikkaan – aineistona suomalaiset apurahasäätiöt

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TUTKIMUKSEN TAVOITE

Tutkimuksen tavoitteena on selvittää onko tilinpäätöksen varojen arvostusmenetelmällä vaikutusta apurahoja jakavan säätiön vuosittaiseen varojenjako. Motivoivina tekijöinä tutkimuksen toteuttamiselle toimivat tämänhetkisen säätiötutkimuksen niukkuus Suomessa sekä suomalaisten säätiöiden osin heikosti tunnistettu taloudellinen merkittävyys. Tutkimuksessa käsitellään säätiöiden varojen kirjanpitoarvojen suhdetta markkina-arvoon ja sen vaikutusta varojenjako.

LÄHDEAINEISTO JA METODOLOGIA

Tutkimuksen lähdeaineistona on 218 tilivuodesta ja 109 apurahoja jakavasta säätiöstä koostuva aineisto, joka ulottuu vuosille 2010 ja 2011. Säätiöt edustavat suurimpia lahjoituksia jakavia säätiöitä, jotka on erotettu Suomen 200 suurimman säätiön joukosta. Säätiöiden organisatorinen ja taloudellinen tieto on koottu alun perin vuonna 2014 toteutettua tutkimusta ja 2015 voimaan tullutta uutta säätiölakia varten. Kyseinen data tarkistettiin ja täydennettiin säätiöiden vuosittaisia tilinpäätöksiä hyväksi käyttäen. OLS-regressioanalyysiä käytetään tutkimuksessa hyväksi selvittäessä yhteyttä varojenjaon, taseen kirjanpitoarvon ja markkina-arvon sekä muiden säätiökohtaisten varojenjako vaikuttavien tekijöiden välillä.

TUTKIMUSTULOKSET

Tutkimuksen tulokset osoittavat, että varojenjaon sekä taseen kirjanpitoarvon ja markkina-arvon välillä ei havaittu olevan tilastollisesti merkittävää yhteyttä keskenään. Kyseisen yhteyden olemassa olosta ei täten voi tehdä sitovia johtopäätöksiä. Sen sijaan säätiön taseen skaalatun markkina-arvon sekä tulojen havaittiin olevan tilastollisesti vahva positiivinen yhteys varojenjako. Säätiöiden saamalla yleisavustuksilla löydettiin olevan tilastollisesti merkitsevä mutta heikko yhteys varojenjako. Tulosten perusteella ei pystytty varmistamaan varojenjaon eri teorioiden sopivuutta kuvaamaan suomalaisten säätiöiden varojenjakopolitiikkaa. Jatkoanalyysin avulla havaittiin, että eri tarkoituksen omaavien säätiöiden tekijöillä, kuten esimerkiksi skaalatuilla markkina-arvoilla, oli erisuuruinen vaikutus varojenjako tarkoitusten välillä.

Avainsanat varojenjakko, historiallinen kirjanpitoarvo, kolmas sektori, apurahasäätiö

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1 INTRODUCTION

1.1 MOTIVATION AND BACKGROUND

The importance of non-profit sector for our society is notable. According to e.g. McKeever & Pettijohn (2014), the non-profit sector had an estimated contribution of USD 887.3 billion to the US economy in 2012, composing almost 5.5% of the country's gross domestic product (GDP). In Europe, the estimated wealth controlled by foundations was around EUR 494 billion in 2012 (European Foundations Centre 2013). It is known also as the "voluntary" or the "third" sector (Salomon et al. 1999), both definitions separating it from the public and private sector. The non-profit does, for instance, sustain many fields of service industry such as health, education and social services, but it also finances those fields through donations, grants and scholarships. Its importance has been growing globally, especially in the developed countries (e.g. Toepler & Salamon 2003; EFC 2013; Foundation Center 2014).

Foundations' role as employers and grant givers, as well as owners, is notable. For example, Bill & Melinda Gates Foundation had assets worth of USD 41.3 billion in 2013 and grants given for more than USD 3.3 billion (Foundation Center, 2014). In Finland, the non-profit sector has also significant importance as, for example, the share of voluntary sector has been estimated to be 3-4% of Finland's GDP (Harju 2006) and the role of foundations as investors has been acknowledged lately in research, e.g. Ahdekivi 2014a & 2016.

The public debate has also emphasized especially the importance of grant-making foundations the source of R&D funding as the public financing is, partially due to financial crisis, decreasing (Barbetta et al 2015). According to e.g. Juvonen & Nord (2016a & 2016b), Perälä (2015a) and Virén (2014), the role of grant-making foundation as passive money distributors is about to change, and a more active and planned measures are needed. Additionally, the interest for measuring the performance and efficiency of third sector has been increasing during the past years as demands from public funders and other stakeholders in order to capture the achievements and impacts of the voluntary sector (Kendall & Knapp, 2000). Combining these issues with the notion that wealth is truly accumulating in foundations (Ahdekivi 2014b) it can be concluded there is a growing interest towards foundations.

One issue that has often been often when discussing the importance of non-profit sector and, more specifically, the role of foundations is that they are not very efficient in their actions. As their growth is being facilitated by their tax-exempt nature in order to accumulate wealth (Ahdekivi 2016), suspicion has also risen towards foundations (Billitteri 2005; National Audit office in Finland 2010) and how governments should support these organizations (Hines et al. 2010). Some examples of these suspicions include concern that some foundations are only founded for avoiding taxes (Kauppalehti 2011; Heikkilä

2015), suspicions about defrauding foundation's assets (e.g. MOT 2015) and political affiliations (Virén 2014) that acted partly as a catalyst on the amendment of the Foundations Act (Perälä 2015a). The amount of foundations is also continuously growing in Finland, with a pace of roughly 40 foundations per year and the current amount foundations is now around 2850 (Herberts & Hohti 2015). The number and importance of foundations is not at least in this sense diminishing, but quite the contrary.

As stated previously, the whole field of non-profit organizations in Finland has not been comprehensively studied by the academic literature. This lack of studies is, for example, a result from the lack of proper data about foundations, addressed by the National Audit Office of Finland (2010). Therefore, the aim of this study is to shed more light on the field of Finnish foundations as a whole, and get more insight on their payout ratio in comparison with their assets and other determinants. Hamilton (2011) has stated that foundations do not necessarily understand fully neither the value of their assets nor their combined philanthropic value. This does also emphasize the need for research since with tangible evidence the cause and effect of different decisions can be better justified.

Foundations are not a trivial player in the markets, either. As Ahdekivi's report from 2014 shows, Finnish foundations control more than EUR 20 billion of different asset classes in, for example, investments directly in equity or indirectly through investment funds. In other words, they are a notable player in the equity market as well, and have a role of bringing variety to the different investors in the market (Virén 2014).

Questions about dividends and payout ratio have been in the interest of scholars (e.g. Black 1976; Clotfelter 1992; Brav et al. 2003; Billitteri 2005; Deep & Frumkin 2006; Bowman et al. 2012) for a long time. As with for-profit companies (Black 1976), the payout ratio for non-profits has also been called as a puzzle (Deep & Frumkin 2001) and it has been in the interest of both scholars (Renz 2012a; Cardinale et al. 2007; Pharoah & Harrow 2010) and, for example, the tax authorities of different countries. There can be at least the same amount of ambiguous results and opinions for non-profit payout ratios as there are for corporations, as the researchers have questioned the results found in earlier studies. For example, Mehrling (1999) states that the study approach by DeMarche (1995) has been flawed, and that other studies (Salamon & Voytek 1989; Salamon 1991) have had one-sided perspective on the time value of grants.

Different from the field of for-profits is that there is a certain scarcity of research regarding foundations as the scalability of those results can also be questioned due to differences, for example, in legislation (noted e.g. by Viren 2014). Moreover, the scarcity of research is notable in Finnish context although the importance of third sector is expected to grow in the future in Finland as well (Manninen 2005; Ahdekivi 2014). Manninen provides some statistics regarding Finnish foundations on their annual payout and

earnings, but these numbers date back to 2001. Moreover, the information here is also more descriptive rather than statistic.

The payout ratios, for instance, have not been analyzed against determinants such as asset values or board compensation. Manninen (2005) particularly calls the scarcity of research in the field of grants and investments vast, as she states that there is hardly any research regarding these issues. Virén (2014) states that there is no universal grant-making policy for foundations, but also admits the lack of study in this field. He also explicitly calls the payout ratio of grant-making foundations a field “*that would definitely need an in-depth analysis*”. Ahdekivi (2016) brings in her research the suspicions of malpractice forth as she states that the lack of control due the absence of owners may affect the behavior of non-profits as economic agents; capital may be hoarded and spent too little or inefficiently on their charitable mission. Due to these remarks, it can be justified that there indeed is a research gap here especially regarding the Finnish foundation field.

Therefore, the aim of my study is to extend the existing payout, valuation and foundation literature and combine them in order to find out what implications different determinants affect particularly the payout ratio in the world of non-profit organizations. Conclusively, the size, growth and importance of foundations both in political and academic discussion do emphasize the need to have more and in-depth research regarding foundations particularly for Finnish foundations.

1.2 OBJECTIVE AND RESEARCH QUESTION

The main objective of this study is to untangle the association between book-to-market ratio of assets and foundation characteristics such as the relationship between board’s compensation and general support have with payout policy in grant-making foundations. The payout policy for corporations and for non-profit organizations can be determined in many different ways. In this research, it is determined as the scaled value of grants given in a certain year.

The aim of this study is to shed light on the question whether different determinants of grant-making foundation’s payout policy, such as the relationship between the historical value and market value of assets, including other determinants that effect the payout policy of a foundation.

The discussion regarding payout policy has been called out e.g. in Ahdekivi’s (2016) research as she states that foundations may have a certain pressure to keep up competitive levels of grants, as they are easily observed and measure by the public. Ahdekivi concentrated on her study to the governance choices of foundations and the spending in relation to those choices. On the contrary, I will base my study on the actual annual payouts and the determinants of those distributions.

The research will be conducted as a quantitative study compiling data from different sources. Hypothesis for the research will be presented in later parts of the study and are based on prior literature and research, and also upon my own insight and intuition stemming from prior assignments and tasks regarding the academic field of research on foundations. Data used for the study will be a compilation of a prior database gathered together with preparation team for the new Foundations Act, and for the yet unpublished papers regarding the DBA thesis for Mrs. Ahdekivi, supplemented with data from foundations' financial statements and annual reports. The database will consist of information from 109 largest grant-making foundation and the time series will stretch from 2010-2011. The analysis to observe the associations between the dependent and independent variables will be conducted using Ordinary Least Squares (OLS) regressions.

1.3 RESEARCH STRUCTURE

The research study is structured as follows. In the second, third and fourth chapter I will go through prior literature and theoretical background for the study. I will begin this by presenting the relevant literature regarding the debate between historical cost accounting (HCA) and fair value accounting (FVA) in order to show the current discussion about the policies' effects on reporting and the stakeholder assessment of these statements and reports. In the third chapter, I will shed light on the field of regarding payout policy and then continue on presenting determinants of payout policy considered to be important for foundations in particular. In the fourth chapter, the focus will be on the characteristics of foundations and especially on the Finnish foundation field. As the features of non-profit sector differ from one country to another (Barbetta et al. 2015), it is useful to clarify the relevant study-specific features of Finnish foundation field. Hence, no detailed outlook from all countries throughout the world will be provided.

The chapters five and six will provide the empirical input for the study. The fifth chapter will provide the relevant research questions and hypotheses for the study, followed by description of the data and model used in the study. These results will be explained in sixth chapter by analyzing the descriptive statistics, correlation coefficients and the results found in the regression analysis. The final chapter of the study will provide a conclusive angle to the study, and will discuss the limitations of the study. In addition, a few ideas for future research stemming from the issues found in current study will be presented.

2 FINANCIAL REPORTING APPROACHES

In this section, I will present first the idea of value relevance of accounting information. Secondly, the basic concepts of historical cost accounting (HCA) and fair value accounting (FVA) will be presented. Thirdly, I will provide a comparison between the pros and cons of these approaches. Finally, these concepts and the current debate of these approaches will also be linked to the theory of payout and the value relevance of accounting information.

2.1 OBJECTIVES OF ACCOUNTING INFORMATION

Accounting methods are an integral component of the contracting between firms and their stakeholders, including financiers, customers, government etc. (Ball 2006). However, further specific objectives of accounting information are not, axiomatic in nature. In the field of for-profits, the accounting information has been addressed important in valuation by inter alia researchers and market actors. The produced information can actually be considered in many different ways as a number of heterogeneous stakeholders shape the information needs (Holthausen & Watts 2001). For a detailed list of objectives, May (1943; see Gjesdal 1981), for example, has listed ten different objectives for accounting information. My purpose here is to define the broad level of the objectives as basis of the on-going discussion between the two financial reporting approaches. Therefore, I will use the broad categorization of Gjesdal (1981), who divides the objectives of information into two different demands.

Firstly, Gjesdal (1981) calls the value the information given to managers as fulfilling the *decision-making demands*. Secondly, the demand for information provided about actions of managers in order to gain control over them as *stewardship demand*. For both of the demands, the accounting information and the choice of financial reporting approach do have a crucial role. Both of these roles have been under discussion in FASB's considerations of conceptual framework regarding the objectives of financial reporting (Financial Accounting Standards Board 2005, hereinafter also referred as the "FASB").

2.1.1 Decision-making demand

Gjesdal (1981) mentions that investors often tend to delegate elements of decision making to managers. We can see the same effect in non-profits, too. The grants can be understood as outsourcing the urge to do public good and donations act here as equity invested in foundations. For non-profits, we can draw a parallel as foundations compete against each other in the resource market. The resource market includes donations, public support, and volunteer work and the professionals needed to govern the foundations

to work in a specific project (Ahdekivi 2016). For non-profits, the valuation is not based on their market value of shares in a stock exchange, but more on their ability to promote their mission and to perform in the resource markets. The donors contribute to the cause of a foundation, as they believe it will promote the desired mission.

The discussion for providing value relevant information is diverse. Firstly, it can be argued that there is a trade-off between relevance and reliability in accrual accounting (Richardson et al. 2005). As managers and boards in the case of foundations are ultimately responsible for decision-making of foundation's activities, such as investment planning and other financing decisions, they may well emphasize reliability at the cost of timeliness and relevance. This approach is prudent and if managers see their "duty of care" as an instruction (Waleson 2007) to preserve assets for the future and it may guide their decision-making. The question is whether it does assist the foundation to promote its mission in an optimal way. Secondly, in a more abstract level, we may find debate between different accounting standards and their contribution to value relevance. Inter alia, Penman (2007), Waleson (2008) and Laux & Leuz (2009) for example present here arguments for and against historical cost accounting (HCA) and fair-value accounting (FVA). As we go deeper to these issues one can get more insight regarding the importance of value relevance and its meaning for different stakeholders.

As contributions represent an "investment" for not-for-profit entities (Parsons 2003), the stakeholders (donors) should, thus, be vigilant to the information at hand. As the foundations have also been exposed to questions of their efficiency (Virén 2014; Ahdekivi 2016), the role of accounting information can be notable regarding these "investments", payout, performance and efficiency. The donors are and also should be interested whether a foundation is really conserving resources for future charitable beneficiaries (prudent stewards) or if they are just self-interested wealth accumulators (pyramid builders, see Sansing & Yetman 2002.) Therefore, the definition of a donation being an investment in these terms is not as far-fetched idea as it might sound in the first place and it emphasizes the stewardship demand of accounting information.

2.1.2 Stewardship demand

Rosenfield (1974, 126) has described the objective of financial statements quite similarly as Gjesdal (1981). He defines that the object is to report on both to people using the information to control the resources and also to people whom they are accountable. If we consider this in a larger perspective, the role of accounting information stretches from beyond just reporting numbers. The purposes may include the ability to actually utilize these numbers in a wider perspective to fulfill different objectives of accounting information. Gjesdal emphasizes, that academic discussion regarding stewardship demand is lagging the discussion that has been going on for decision-making demand. This has been the issue

partly because there is no specific theory regarding the stewardship demand. He also challenges the widespread belief that the demand for stewardship would prefer using historical costs over fair value alternatives that is called as “future-oriented” information.

For non-profits, the use and value relevance of accounting information has been researched e.g. by Parsons (2003; 2007). Parsons has studied the usefulness of accounting information to other stakeholders than managers. He states, that the value of accounting data should be examined to the users of this financial data and emphasizes the importance of donors in this case. Parsons (2007) adds that donor communities should be understood more as existing and potential investors for the foundation. Therefore, they have control over the managers that use the data for different purposes. Even though larger foundations are more independent from donors and contributions due to the larger amount of accumulated endowment (Barbetta et al. 2015), smaller foundations may well benefit if they are able to fulfill the information needs of donors. Eckel & Grossman (1996) note that donors may be more willing to contribute if the foundation (the recipient of the donation) seems more “deserving”.

This use of information is supported in Gjesdal’s article (AICPA 1973, see Gjesdal 1981) as there is a claim that the objective of financial statements is to supply information that is useful in order to be able to judge the management’s ability to utilize enterprise resources effectively. However, he states that the definition of ability seems vague as the word undermines the responsibility managers and boards have in the context of non-profits. He defines the stewardship demand more as a choice variable managers have. These choices have potential consequences for the manager instead of just showing the investor (=donor) whether managers are able to utilize the enterprise resources. In other words, Gjesdal emphasizes that the donor needs information about the choices managers have made under certain circumstances. The demand itself does not require this information to be neither reported using historical nor fair value per se.

In principal, both of these demands stem from the same theoretical framework, but the problem structures of these demands are not identical. Hence, there are reasons why these objectives should be approached from different angles (Gjesdal 1981).

2.1.3 Historical cost accounting

By definition, historical cost accounting (HCA) is a financial reporting approach, where assets and liabilities are being reported at the initial price they were exchanged for at the time of the transaction. (Jaijairam 2013). If an organization then chooses to report its applicable assets and liabilities using the historical cost, the value of these assets stays consistent from a financial statement to another. Thus, the values of assets and liabilities are not under a constant state of readjustment (of course the amortization

does have an effect to some values of assets as well) and do hold then against the economic cycles. The inputs in historical cost accounting are certain and fixed (Jajairam 2013), which makes it a consistent and generally an easier way to report.

In national level, the rules of Finnish Accountancy Board (1725) state, that if securities are long-term investments, no significance should be given in their appreciation to the observation, that the quoted price on the closing date differs from the average prevailing price. Thus, the foundations can appraise them on a historical basis and disclose more information in the notes to the financial statements.

2.1.4 Fair-value accounting

According to Financial Accounting Standards Board (2010), Financial Accounting Standard (hereinafter also referred as the “FAS”) 157 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date”. The statements also mention that the focus is not on the “price that would be paid to acquire the asset or received to assume the liability (an entry price).”

Furthermore, fair-value accounting (FVA) has multiple ways how it should be interpreted. Fundamentally, fair values contain more information than historical costs in two separate occasions. Firstly, fair values produce more information if there are observable market prices that managers cannot materially influence due to less than perfect market liquidity. Secondly, if there are independently observable, accurate estimates of liquid market prices (Ball 2006.) In FAS 115, the financial assets are divided into three different categories: those held to maturity, those held for trading purposes and finally those available for sale. All these categories have different treatment. Firstly, assets that are held to maturity are valued at amortized cost. Secondly, assets held for trading are marked to market and thirdly, assets available for sale are marked to market, with unrealized gains or losses from earnings but included in shareholders equity (Ball 2006; Laux & Leuz 2009.)

Here, mark-to-market is theoretically a quoted price of an asset in properly functioning market. If this is not applicable, the second hierarchy is to compare quoted prices for similar assets in active or other observable prices. In the third level hierarchy unobservable inputs, such as the company’s own assumptions can be used in pricing an asset. The use of these unobservable inputs is, however, disfavored and the rules encourage minimizing the use of these inputs. (Wallison 2008; FASB 2010.) Conclusively, the models can be called either mark-to-market if liquid market prices are available or mark-to-model, if they are not available (Ball 2006).

Nowadays the markets for commodities and financial instruments are deeper and more liquid than ever. The development for more sophisticated methods to estimate the fair value of for untraded assets has also promoted the current method to be more widely accepted (Ball 2006). Assets cannot be, however, transferred to another category unregulated. Moreover, some assets cannot be transferred to another category if that asset, for instance, will be sold to cover an organization's need to cover liquidity (Wallison 2008). There are cases, where the value of an asset may face huge differences in valuation depending on the category. Wallison (2008) mentions examples of banks, where marking assets to market may have a huge impact on the balance sheet and earnings if the value of these assets (loans, for instance) experience changes.

2.1.5 Comparison between financial reporting approaches

The superiority of these financial reporting approaches is far from decision. Laux & Leuz (2009) mention about old the prevailing issues in accounting such as the tradeoff between relevance and reliability that it still to be unsettled. For example, according to Gjesdal (1981), there has been a widespread belief that historical cost accounting would be a better approach in order to fulfill the stewardship demand. This is based on an assumption that assessing investment quality and the stewardship demand would be exclusive to each other. Therefore, future-oriented statements would be less appropriate. Moreover, historical cost accounting has been addressed to be generally easier to follow as it is based on fixed inputs. On the other hand, we may face uncertainty in the future periods about the true value of assets (Jaijairam 2013).

Penman (2007) has gathered in his study several points for and against of these approaches. According to Penman, investors are primarily concerned with the value of an asset instead of the costs. Secondly, with the passage of time, historical prices become more irrelevant in assessing an entity's financial position (also emphasized by Wallison 2008; Laux & Leuz 2009). Thirdly, the fair values reflect true economic substance. Fourthly, he claims that fair value is a market-based measure that is not affected by factors that are specific to an entity.

Additionally, there are also multiple viewpoints from which the fair values can be addressed harmful for the demands of financial reporting especially from a foundation's point of view. Firstly, it exposes them to bubbles in financial statements. In this case, inefficient prices flow through the income statement, which does not necessarily harm short-term portfolios. However, as foundations often have long-term portfolios, they can be affected by this. Bubble prices may give the appearance of adequate or even excess reserves against future needs. Laux & Leuz (2009), however, argue that the bubble prices or the financial crisis itself was not exacerbated by fair value accounting. According to Penman (2007), fair value accounting may even fail if assets and liabilities are not matched accordingly. For instance, if

a foundation's borrowings lose value (in liabilities) and the decrease in asset values is not recognized, this will result in overstated earnings (Penman 2007.)

These aforementioned issues apply for the first hierarchy level of fair value measurements. The problems for levels 2 and 3 stem from the problems regarding the reliability of measures. Firstly, as they both are more or less estimates of hypothetical market prices, the reliability of these estimates can be questioned as the underlying assumptions can vary. A possibility of manipulation can well occur as the estimates are hard to verify (Benston 2008). Secondly, if the balance sheet items are more or less fuzzy (Penman 2007), the historical cost information may at least offer some information about the values of these items. Thirdly, if a foundation does not have the intention to sell its assets, be it shares or a piece of art, the annual re-evaluation may not give any more information to the stakeholders in these hierarchy levels. Fourthly, Benston (2008) states, that it is also costly for entities to determine and verify the fair values not based on actual market prices. Especially in "fuzzier" balance sheet items (Penman 2007) the costs may well increase.

The choice of financial reporting approach has also links to wider perspectives of corporations' processes and corporate governance. For example, Bushman & Smith (2001) and Sloan (2001) have studied the use of financial accounting in managerial incentive plans and compensation. This node of research falls ultimately outside of my study's agenda, but the link of governance is apparent in the field of non-profits as well. The academia (e.g. Ahdekivi 2014a and 2016; Jobome 2006; Hallock 2003) have expressed interest in the governance of non-profit organizations. Additionally, sociological debates have (e.g. case Bensow MOT 2015; case Riihi-säätiö (Helsingin Sanomat 2015) conducted in the governance and also possible malpractices in the governing processes of foundations. These studies and discussions emphasize the linkage between accounting, governance, finance and the economy itself as well.

Laux & Leuz (2009) state that it might be possible that treating certain assets and liabilities differently could actually be optimal despite the notion that this model would appear to be inconsistent from a measurement perspective. The key point here is that measuring assets and liabilities in a consistent way should not necessarily be goal per se. As e.g. Gjesdal (1981) and Paul (1992) also point out, the optimal accounting system depends on the purpose and usage of accounting numbers. Penman (2007) also concludes that it should be also considered, to whom the fair value is aimed; different stakeholders may have a different opinion about the true fair value. As Laux & Leuz (2009) state, a careful economic analysis of the tradeoffs, incentives and real effects is needed.

Hence, the notion that companies, banks for example, can experience dramatic impacts in their balance through the choice of different reporting approach (Jaijairam 2013), many non-financial corporations (and also grant-making foundations) can have large investment portfolios, thus they do also experience

the impacts of different approaches. Jajairam adds, that the balance sheet values still have a real impact as investors and creditors rely on the value of assets in determining the credit worth of an entity.

Wallison states that, as some organizations tend to hold assets to maturity, while others actively trade assets and liabilities. In the case of foundations, many tend to hold assets for perpetuity (Ahdekivi 2014a). Thus, market-based movements in asset values would increase the volatility in balance sheets and earnings reports, depending on the business model. In the case of foundations, the majority of income comes from investments (e.g. Virén 2014), making the fluctuation of asset values also present in the earnings report as well. If historical costs are used, the balance sheet is not severely affected by the fluctuation which would be preferred if the assets are held to maturity (Penman 2007). Then again, Laux & Leuz (2009) point out, that even if assets were held to maturity, the investors (=donors) might well care about current market value of their investment (=contribution) to the organization and receive better benchmarking and comparison how those assets evolve over time.

The debate between these the financial reporting approaches has been going on especially after the cases of Enron (Benston 2006) and also several financial crises (Greenberg et al. 2013) that have been stated to be exacerbated by FVA (Laux & Leuz 2009; Wallison 2008; Whalen 2008) and also by the firms themselves (Laux & Leuz 2010). This was due to the result, that when values of assets declined, so did the values of equities of banks and insurance companies (Zyla 2010). As a result, several financial institutions were enforced to raise more equity. Laux & Leuz (2010), however, have studied the connection between the last financial crisis and FVA further. Their initial claim (2009) and conclusion was (2010) that FVA unlikely added to the severity of the 2008 financial crisis in major way. Additionally, they claim that overvaluation of bank assets was more likely over- than undervalued. Whatever the truth behind the financial crisis is, the choice of financial reporting approach does still have affect the values of organizations' assets and liabilities. Moreover, it is not certain how the use of HCA would have even had a change to the aftermath of financial crisis, as there is no empirical evidence for or against this claim (Laux & Leuz 2009).

As the debate about the question which one of these financial reporting approaches is superior to another remains still unanswered, the grouping of different assets appears still to be a mix as even some financial assets liabilities are reported at fair value and at historical cost (Laux & Leuz 2009). FASB and International Accounting Standards Board have, according to e.g. Barth (2006) and Kothari et al. (2010) favored the use of fair values in financial statements and thus, promoted a movement away from the traditional modified historical cost basis of financial reporting. The results of this movement will be seen in the future.

2.2 PAYOUT POLICY AND CHOICE OF FINANCIAL REPORTING APPROACH

As presented in previous sections and in the Table 1 below, grant-making foundations tend to hold a notable amount of financial assets on their balance sheet. Thus, the impact stemming from the choice of different approach would be notable as well. Then again, we can well question the true need for market prices as well (Wallison 2008). In a limited or in an abnormal case, market price can actually be misleading as the market conditions change. Wallison adds, though, that if valuations are based on an initial cost, they can be misleading as well as times and true value of these assets change.

The use of financial reporting approach is a choice of the foundation themselves although the fair values are disclosed in the notes of the financial statements. The difference between the historical and fair values can be significant, of course to both directions. As an example of a great difference between historical and fair values of assets, one of the foundations in the sample had reported the value of its financial assets around EUR 9 million and the fair value in notes was around EUR 230 million. This value is almost 26 times greater than the historical value. As the foundation, however, also owns non-quoted shares of a holding company, the definitive value of its financial assets was actually around EUR 890 million, being broadly 99 times the amount of the historical (entry) value.

Although the previous example is only an individual case, the issue can be seen also on a larger scale. Investors (in this case donors) may lack information whether the assets have been enclosed in financial statements using historical cost accounting or fair value approach, complicating the benchmarking of foundations and their performance. This problem has been noticed e.g. by Ball (2006) who states that uniform accounting methods would help the comparability of organizations. The aim is not, however, to promote to use of historical or fair values, but to bring forth the discrepancies between the uses of these approaches.

As an addition to the previous example, I have enclosed in the following table a comparison between differences in values of historical and market values of investments.

Table 1. Comparison between historical and fair values of foundations' investments and financial instruments

Values of investments and financial instruments	2010	2011
Historical value, (EUR, millions)	6533	6481
Fair value, (EUR, millions)	10046	9164
- as percentage of historical value, %	153.8	141.4

As can be observed from Table 1, the fair values of investments and financial instruments have been significantly larger than historical values. Although the fair value is lower in year 2011 than in 2010, causes for this reason can be found in the stock market cycles. For instance, OMXH PI –index was around 25% lower in the end of year 2011 than in year 2010 (Nasdaq OMX Nordic 2016). The historical values of assets stayed approximately the same. Nevertheless, the proportional difference between market values and historical is notable. Sansing & Yetman (2002) discovered, that majority of foundations' asset growth was from appreciation instead of e.g. contributions. Thus, the effect of these approaches remain as an interesting target for further studies.

Although the question of superiority between the financial reporting approaches, it is good to bear in mind the purposes of accounting information: who needs the information and further, what is the purpose of the information. The aspect of decision-making has been emphasized in the literature, but the demand for stewardship should not be taken for granted (Gjesdal 1981; Penman 2007). To receive insight to the question, whether the choice of accounting information has an effect on responding to the demands of decision-making and stewardship, I will examine this more thoroughly in the empirical part of the study.

3 THEORY AND DETERMINANTS OF PAYOUT POLICY

The purpose of this section is to provide the reader more insight on the subject of payout theory in different organizations. In the first section, the different ways of wealth distribution are depicted. The following sections provide academic findings that steer the payout in organizations. Finally, the most prominent theory for foundations is discussed.

3.1 THEORIES OF PAYOUT POLICY

3.1.1 Wealth distribution – grants vs. operations

In order to simplify the wealth distribution of foundations, a certain apportionment should be carried out. According to e.g. (Wijkström 2004; Wijkström & Einarsson 2004), foundations can be divided into two groups. They can either make grants to research, arts etc. or work on their mission with their own employees and volunteers (by maintaining a statue or cleaning the environment etc.) If we consider the cost structures of these activities, making grants can be seen as a visible and a clear way at least compared to the sum of operational costs and benefits (Ahdekivi 2016).

Renz (2012a), for example, has depicted a method created by IRS¹ where e.g. taxes, grants, loans and even technical help can be calculated into wealth distribution. This method has been later criticized as it may incentivize to overly professionalize the board of the foundation (Frumkin 1998), whilst some promote it as more efficient and profitable way to provide grants for the best applicants (Porter & Kramer 1999). Mehrling (1999) and Clotfelter (1992, 209) discuss grants payout ratio, describing it to be “*economic payout ratio*” concept. In this concept, the payout ratio is the ratio of grants to assets. Hence, the grants as the measure of payout is a transparent and also a straightforward method to describe the payout of foundations. This is understandable if we consider operational foundations that have to please customers to use their services and also attract and affirm donors of the promotion for public good (Ahdekivi 2016).

3.1.2 The dilemma between objectives

In the heart of payout policy there is a dilemma between current and future objectives. This issue has already been addressed by Sloan in the 1930s (1935), as he states that the declaration of dividends does not only reflect the current condition of business, but also the future trend. As foundations often include the assumption that they are established from here to eternity (depending on the mission statement and rules of the foundation) the payout should also be adjusted so, that the foundations are able to promote their mission appropriately. For instance, as e.g. the Rockefeller foundation (2016) has a mission to promote the well-being of mankind, they should be able to respond to the problems in the future as well as we do not presumably expect the mankind to disappear from our planet.

Hence, if foundations spend their assets too quickly and are not able to maintain them for the future, they may not be successful tackling their problems in the future. Thus, with lower payout ratio, the foundations are able to bolster themselves against a new and unforeseeable problem that belongs to their field of mission industry (Deep & Frumkin 2001.) The discussion regarding this dilemma has been going on for a long time (Marker 2010) and I will present more of this discussion in the next sections of this chapter.

3.1.3 Legislation for payout

Foundations are globally regulated according to the legislation. For instance, in the USA the foundations are obliged to have at least 5% annual payout rate that is calculated by the IRS² each year. If a foundation has payout ratio under 5%, it must pay an excise tax on any undistributed portion (Renz 2012a.) Although the amount over the minimum ratio can be carried over up to the next five years, this rule has

¹ IRS = The Internal Revenue Service is the revenue service of the United States federal government

² The formula differs from just grants divided with assets, please see <https://www.irs.gov/pub/irs-soi/09fallbulfoundtrusts.pdf>

been criticized. It has been stated, that it works nowadays as an upper level for grants, instead of being the minimum as foundations need to decide whether to save up for the future or increase their spending (Deep & Frumkin 2001 & Mehrling 1999.) Hamilton (2011) continues from this that many foundations do not actually have a formal spending policy, thus they just simply distribute the 5 percent minimum.

The dilemma here is that whether the current (high payout rate) or long term (low payout rate) spending be maximized, especially in this situation where asset growth has been swift during the past years (Toepler 2004 & Klausner 2003). The discussion has been going back and forth for years (Marker 2010). The five percent ceiling seems, though to hold, even during the times of significant asset expansion, which may not necessarily be the most optimal solution from economic perspective (Mehrling 1999 & Bradley et al. 2003). Prior to the rule, the payout ratios have varied from 3.8% to 7.3% during 1937-1989 in U.S foundations (Clotfelter 1992), but now some foundations tend to stick with the legislative minimum (Hamilton 2011) as it has strong traditional background and is thus easy to adopt as a solution (Deep & Frumkin 2001).

The rationale for compelling legislation has multiple justifications. Tackling the problem early on, increasing equality in tax expenditures between the wealthy and poor, increasing donor intent by spending more in the early stage, and also to diminish criticism towards the benefits that foundations enjoy are just some of the benefits of tighter legislation regarding payout policy (Deep & Frumkin 2001.)

Nevertheless, the “right” payout ratio stemming from the legislation has been studied widely early on (e.g. Steuerle 1977; Troyer 2000; Billitter 2005) from different angles achieving also a manifold of results whether the five percent solution is the optimal payout ratio (DeMarche Associates 1995 and 1999) or not. In other studies, the results have shown that although the foundations have been able to keep their payout rate slightly above the five percent, they are expected to face challenges to maintain their buying power in perpetuity with the rule (Cambridge associates 2013). This has also been discussed by J.P. Morgan Asset Management’s report (2011), where the fairly aggressive (Hamilton 2011) asset allocation (80% equity and 20% bonds) would support a spending rate of around 4% without damaging the long-term value of the portfolio (2011).

In order to make the discussion even richer, the ratio has also been questioned as being actually too low and thus ineffective (Mehrling 1999), especially if stock markets tend to grow with a great pace (Steuerle 1999). Deep & Frumkin (2001) claim that almost all foundations have their assets in equity and bonds, but the mix is around 60-40 between these two. However, they claim that the minimum of five percent is still quite defensible and that largest foundations tend to follow more aggressive (and more lucrative) strategy and still be able to exist. Additionally, there has been discussions whether the limit should

liberalized altogether (Heydemann & Toepler 2006) and courage foundations to adopt a payout rate that strategically links mission and payout decisions within foundations (Deep & Frumkin 2001).

Deep & Frumkin (2001) claim, that if the foundations are obliged to pay each year the fixed ratio, there is no guarantee that the money will be distributed effectively and that their social impact would be maximized. Decision that is more conservative would be to remove the carryover and carryback provisions or to at least remove the tax penalties from greater-than-average single year distributions (Steuerle 1999).

In the table (Table 2) below, I have provided a brief compilation of foundations in global perspective. The table presents us the key differences the foundations face due to different legislative atmosphere. As can be seen from the table, some countries such as Sweden and the USA have provided a solution to the dilemma mentioned in the previous section by legislating explicitly payout rules for foundations. However, we can see from the aforementioned discussion that providing explicit rules may not be the ultimate solution for this dilemma.

The amount of foundations, assets under management (=hereinafter also referred as AUM) and the foundations' role as employers varies heavily from one country to another. This furtherly emphasizes us the need for better understanding of payout policy and its importance for effective philanthropy. The foundations in other countries may also have further roles and characteristics, as for instance in Norway the amount of industrial foundations is notable compared to other countries (Ahdekivi 2014a.)

The regulation of investing activities can also affect the amount of payout. In many cases, it can be seen as guidance to aim more at sustainable growth. As we remember, the life span of a foundation can be perpetual, thus the investment policies should also be in line with this claim. In Finland, the response for this regulation has been approving (Association of Finnish Local and Regional Authorities 2013) and the update of these regulations was seen as a necessary procedure (Ahdekivi 2014a).

Table 2. Key information about foundations in global perspective

	Finland	Sweden	Norway	Denmark	The United Kingdom	The United States
Number of foundations	2 850	40 000	7 700	14 000	164 108	98 746
Assets under management, EUR billion	20	49	9.65	47	310	560
Number of employees	7 400	N/A	34 000	N/A	897 000	14 000 000
Regulation of investment activity	The board must plan activities in advance.	The assets should be invested in an "acceptable manner". Speculative investments are not allowed.	Regulations regarding profit and risk management. Responsible asset management is required.	Regulations provided by Ministry of Justice. Payout of foundation-owned corporation is constricted.	Investment activities are neither taxed nor restricted. The principal is that the capital is retained, but the income can be distributed.	No restrictions for investment activities.
Tax benefits	Foundations for public good are mainly tax-exempt. No restrictions for payout.	In order to be tax exempted, a proportion of 80% of net income must be distributed during a five-year time span. Activities for public good are tax exempted.	Tax authority evaluates the course of actions. Distribution of funds not restricted.	Funds distributed for public good are tax exempted.	If activities are for public good, income is not taxed. Income must be distributed for public good during "a reasonable time span"	Foundation is tax-exempted, if it distributes at least 5% of its net assets annually. Distribution is calculated over several years.

3.1.4 Tax benefits

The situation of for-benefit organizations is different from non-profit organizations. As companies are subject to income tax, the foundations do not necessarily³ pay taxes of their profits at all. However, this does vary from one country to another.

Foundations in Finland are not necessarily tax-exempted from all of their activities. The features of foundations gaining tax-exempt status is not an axiomatic issue, but a result of interpretation of different laws such as Income tax and Business tax legislation carried out by Tax Administration.

As stated in previous section, the government may have a “carrot and stick” approach as the foundations are enforced to pay taxes if they do not meet the criteria set by the legislator. In Finland, the Tax Authority (Hannula et al. 2015, 91) has the authority to make the final decision and in the USA, the authority is IRS (Renz 2012a). The legislation to receive tax benefits does vary from one country to another (Table 2), but generally, foundations are tax-exempted under the decision of a ministry (Denmark, Austria etc.) or tax authority (Finland, the USA and Norway).

Billitteri (2005) states, that payout is actually potentially suffering from the current state of taxation. He claims that the current two-tiered (one or two percent) approach used in the USA is punishing foundations from making larger-than usual distributions in one single year. This is due to the rule that their tax rate will be raised to the higher level if they do not sustain that level of distribution for the next five years. Independent sector (2016) does also emphasize this problem in their statement: *“Further, any increase in the foundation’s payout in a given year (i.e. a response to increased needs or crises) makes it more difficult for the foundation to qualify for the reduced one percent excise tax rate in subsequent years.”*. Therefore, sudden jumps in distribution policy may not be preferred among foundations. Steuerle (1999) also supports this observation as he states that the current system is actually discouraging to give more than 5 percent of net worth away in any year.

As well as for coercive legislation for payout, the evidence for tax effects is mixed. Bowman (2011, 130) states, that managers of non-profit organizations may make their spending in a manner so that they can avoid the higher excise tax rate in the near future. Academia from for-profit organizations states, that tax incentives would not have a significant effect on investment behavior of companies (e.g. Westlake 1969). This receives also support from Barbeta et al. (2015), where they analyzed the effect of different tax-rules on foundations’ activities.

³ For a more detailed list, please see Table 2: “Key information about foundations in global perspective”

3.1.5 Smoothing grants

As one of the most important issues regarding the payout policy, smooth dividends have been discovered. For-profit companies are very often reluctant to cut their dividends (Lintner 1956; Allen & Michaely 2003; Brav et al. 2003; DeAngelo et al 2008). Instead, they normally tend to gradually increase and refrain cutting them. As Allen & Michaely (2003) have empirically pointed out, the vast majority of the US firms increase dividends instead of cutting them. The same applies as well for non-profits, as many foundations tend to base spending on different averages (such as three or five-year) (Hamilton 2011).

In the field of non-profits, the optimal payout ratio and policy for each year are also not axiomatic. In a situation of a certain fixed ratio, there is no guarantee that the money will be distributed effectively and that their social impact would be maximized (Deep & Frumkin 2001.) Fisman & Hubbard (2003, 217-218) have presented that the shocks of revenue streams should be passed on to program expenditures. Someone has to bear the risk (in for-profits, the investors) also in non-profits, in this case the recipients of foundations' services.

Against these two previous suggestions, foundations' role can be expected to provide support for grantees also during harder times, making the role of smooth grants more as balance to the fluctuation of public support (Virén 2014). As the world changes, foundations can offer some stability as owners but also supporters and funders of, for example, science and education. Steuerle (1999) has also presented this counter-cyclical manner as he connects the economic theory of marginal utility in grant making. Then again, Brown et al. (2014) found that university payouts respond to negative shocks in their spending, but not to positive one. In other words, the counter-cyclicity does not work.

As Mehrling (1999) and Deep & Frumkin (2001) state, the five percent has acted as a ceiling to the grants distributed. The payout ratios have varied from 3.8% to 7.3% during 1937-1989 in U.S foundations (Clotfelter 1992). As the five percent rule was presented in 1969 to ensure that private foundations fulfill a charitable purpose (Troyer 2000), the average distribution has been around 5.5% while the investment returns have been around 7.65% in 1971-1996 (Deep & Frumkin). Bowman (2011, 129) adds, that this difference is approximately the same as long-term rate of inflation. The relationship between foundation's motives to cover the inflation is thus possible, but not, however, empirically validated.

3.1.6 Asymmetric information

In short, asymmetric information can be understood as a situation where one party has superior information compared to the other. If we consider this from the perspective of a non-profit, the donor trusts that the foundation has proper knowledge to assess the grantees from the large amount of applicants. Thus, the people responsible of giving grants may know something the donor does not necessarily know. For instance, a governmental office would not necessarily have the same information and knowledge of the “grant market” or study fields as the specialized foundations may have (Virén 2014). Thus, it would be also inefficient to dissolve these institutions and steer the grant giving from a centralized source, a governmental office, for example.

Hansmann (1980) has identified this asymmetry of information in his article as a reason for non-profits. Firstly, in this case, the consumers (here e.g. a donor) may not be able to verify and control the quality of good or service, and secondly, may not be able to protect themselves with different contract terms, prefer to buy from someone who is not able to distribute profits. When efficiency losses are expected to be greater than from non-profits, the non-profits have been suggested to be able to prevent this market failure, i.e. *contract failure* (Hansmann 1980; Hansmann 1996.) Thus, contribution to a non-profit organization may seem to donor as a good way to outsource the decision making to foundations and just steer the direction with the contribution (Anheier 2005; Ahdekivi 2016).

This applies also to the foundations themselves. If the foundation does have superior knowledge of the grant applicant, the payout ratio should then represent their best estimate of how to best promote the foundation’s mission. This assumption of asymmetric information does also affect the *transaction costs* between the donor and recipient. Faulk (2011), however, notes that information asymmetries can well exist between the applicant and foundation decision-makers. Then again, this observation of information asymmetries exists for almost in every aspect of business and must be accepted as an underlying condition for all decision-making.

3.1.7 Signaling

Although the payout of a foundation is not targeted as an income for investors, there is still a way for non-profits to include a signal in their payout ratios. Although in the U.S., for example, the spending should be maintained at or above a certain level (5%), Finnish foundations do not face the same coercive legislation. Thus, they can maintain the level by themselves. As there is no coercive legislation, the sources of investment and grant-making policies are then primarily the annual reports of foundations. Some foundations do extend their grants for several years, which then limits their urge to take more risk

on their investments (Laatikainen 2015), and some of the foundations do distribute the same amount each year⁴.

There is also a possibility that foundations want to legitimize their actions. This can be done by having a higher payout rate as it may then curtail possible criticism given by their stakeholders, e.g. from the government (Deep & Frumkin 2001). As we know, in the U.S. the five percent rule has been criticized e.g. by Mehrling (1999) for being too low today's foundations that have a vast amount of assets under management. Therefore, if foundations paid out grants at a higher rate, they could be able to deflect the mounting criticism of their payout practices. This can help them to position themselves more effectively as responsible partners within the broader non-profit sector (Deep & Frumkin 2001.) Additionally, this could help these foundations to position themselves better in the competitive market for grants and donations (Faulk 2011).

3.2 DETERMINANTS OF PAYOUT POLICY

The previous chapter provided us some theories regarding the payout policy of non-profits. The different payout ratios (even in the USA where there is a minimum payout percentage) can be justified from various reasons. The dilemma between the spending of today and preserving the money for future is evident just as in the field of profit-making organizations. The stakeholders differ, but as there is competition in the resource market (Ahdekivi 2016), the foundations are not fully above the regularities of the profit-making organizations' world.

As the spending policy and payout ratio in Finland is not explicitly related to any particular percentage, it is thus academically interesting to study the determinants of payout policy of these foundations. The following section presents the associations of earnings, risk, cash flow, market to book value, taxes, board compensation, size and growth to the payout ratio. Additionally, evidence from prior empirical research on these relationships will be presented.

3.2.1 Board compensation

The compensation paid to the board is also a notable determinant as the compensation does have a connection to the payout ratio as well. The role of foundation's board will be discussed more thoroughly in chapter 3.3.4, but as a bottom line the board has to take responsibility regarding investment activities and also mostly of the payout decisions. The payout policies are not explicitly stated in the legislation of all different countries (see Table 2), but as the board is responsible for the finance and operational

⁴ E.g. Helsingin Yliopiston tiedesäätiö, retrieved from database and annual reports

preconditions, its role as an organ must not be trivialized in questions regarding payout as well. They do often also decide the grantees from the vast amount of grant applications.

The literature from compensation in non-profits is variegated. More and more non-profits are able, and willing, to reward executives with even performance-based compensation (Baber et al. 2002; Barragato 2002 and Hines et al. 2010). Renz (2012b) states, that compensation is by far the biggest component of foundation's expenses. Then again, e.g. Theuvsen (2004) questions in his study whether these pay-for-performance plans will work in non-profit foundations. The literature also emphasizes the different motivating factors between the private, public and third sector (Goulet & Frank 2009). Many managers, who pursue advancement opportunities and more secure future pay, favor rather private or public sector to non-profit sector (Lee & Wilkins 2011).

Nevertheless, the compensation of the board can be considered as one of the determinants as the link between payout ratio and the paid compensation should be investigated. As stated previously, the board is responsible for many different decisions, and the amount of payout does broadly belong to the requirement to act diligently. Clotfelter (1992, 217) claims that a very low payout rate may be a signal of excessive administrative costs. Additionally, bigger monetary size of a foundation may result in higher levels of compensation, which may influence the payment decisions, as board may want to keep the payout close to the minimum and grow the foundation's assets. Asset size and compensation have been studied to have strong correlation, thus the compensation will grow if the payout is lower. (Deep & Frumkin 2001.)

In the USA, this remuneration is calculated into the payout ratio (Eisenberg et al. 2003) and majority of foundations (especially smaller foundations) did pay fees to trustees. They claim that foundation boards do play a role in the grant making processes, yet little data is collected on the relationship between grant making and the board's composition. Sansing & Yetman (2002) hypothesized, that the fees paid to trustees would be negatively correlated with distributions and the results were supporting this hypothesis. We should, however, also acknowledge that as Boris et al. (2008) mention, many board members do not receive any compensation at all. This is the case also in Finland as well (Ahdekivi 2016), at least for now.

3.2.2 Book-to-market ratio

As mentioned in section 3.1.2, there can be a dilemma between (high payout rate) or long term (low payout rate) spending be maximized in the light of asset growth seen during the past years (Toepler 2004 & Klausner 2003). Therefore, if foundations are inclined to increase the value of their assets, the distributed amount should then be respectively lower. The relationship between book values and market

values of assets have also been connected to underestimating equity value, which also reflects to the payout of corporations (Watts 2007, Quinn et al. 2015). For non-profits, Frumkin & Keating (2001) state that particularly older non-profits have not capitalized their fixed assets. Moreover, they may hold a valuable collection that are not reflected at their fair market value on the financial statements. This may well affect their annual payout as they conduct certain principle of prudence in their payout policy.

Steuerle (1999) mentions that foundation giving may follow the stock market cycle, meaning that during an upcycle the absolute giving will also grow. This theory seems feasible as earnings and value of net assets do usually grow (decrease) during an upward (downward) stock market cycle. The absolute payout will grow, but the relative payout would not necessarily grow at the same pace (e.g. Mehrling 1999). Deep & Frumkin (2001) also state that the uncertainty in financial markets does have an effect on spending as well. Market declines may have a negative effect on endowment (total assets less total liabilities Fisman & Hubbard 2003), thus foundations with lower payout ratios would have more buffer to cope with this situation of a market decline. Brown et al. (2014) have found, that university endowments respond actively to negative shocks, but not to positive shocks. Thus, they tend to cut their payout if there is a negative financial shock in the economy and the book-to-market ratio is respectively smaller.

3.2.3 Size

Foundation size does not necessarily mean that the company or foundation would be more bountiful in their donations. It does reflect the pool of resources from which they can provide grants, but as the dilemma is, they should also be able to increase the assets in order exist in the future as well.

Studies from Salamon & Voytek (1989), Salamon (1991) and (Arnsberger) 1995 show that smaller and mid-sized foundations have compensated the payout of the largest funders (Mehrling 1999). Steuerle (1999) states that especially the wealthiest foundations may choose to give the legislative minimum and invest the remainder in order to bolster their standings in the pecking order of foundations.

For corporate philanthropies, the link between firm size and corporate charitable giving has been studied recurrently. Levy & Shatto (1980), as well as Atkinson and Galaskiewicz (1988) and Buchholtz et al. (1999) found out that large firms tend to give more money in absolute terms. Moreover, Seifert et al. (2003) have reported that there is a positive relationship between firm's cash resources and donations, but these findings are found in the field of corporate philanthropies.

Sansing & Yetman (2002) studied inter alia the connection between levels of distribution and size among foundations. The hypothesis was that size is negatively correlated with distributions, but did not find

any firm evidence between the connections of these to variables. Their later study (2006) did, however, find that larger foundations tended to have lower payout rates. As smaller foundations are more dependent on donations than endowment (Barbetta et al. 2015), the foundation can also pursue bigger size as it would make them better reputed, but also more independent on individual donations. Thus, the chase for more donations would then be easier. Additionally, Heutel & Zeckhauser (2013) found, that larger foundations tend to outperform smaller foundations in a matter of investment returns. This would also give them better financial situation to increase their payouts.

The amount of cash on the balance sheet as a determinant is problematic. We can do the same implications about the entity's size as with the size of cash as larger organizations tend to need more cash and other liquid assets to finance their day-to-day activities. Then again, due to better cash management and forecasting, the amount of cash should be optimized also in non-profit sector (e.g. Coe 2012). Additionally, there is also an incentive to keep the cash balance low due to holding costs of cash (Eppen & Fama 1969). Especially in the situation of low interest rates, the holding cost of cash instead of investing it further or distributing it as dividends or grants, increases.

The link of cash flow in payout formula falls in the field of liquidity. If a firm or a foundation has a poor liquidity position (is financially constrained), its ability to distribute profits in the form of dividend or grants becomes more difficult due to shortage of cash (Amidu & Abor 2006; Almeida et al. 2004). Then again, the existence of excess free cash flow can have negative effects on non-profits, such as moral hazard. As Ahdekivi (2016), foundations may hoard capital and spend too little on their mission. This would imply that the amount of free cash flow would increase the payout, but not with the same coefficient as free cash flow grow. Jensen (1986) also states, that moral hazard is severe in firms with large free cash flows.

3.2.4 Earnings

As for-profit firms, the anticipated level of future earnings has been one of the primary indicators of dividend payment (Pruitt & Gitman 1991 and Baker et al. 1985; see Amidu & Abor 2006). Arnsberger (1995) also emphasizes the role of income on investments as way to support their charitable giving.

As stated later in section 3.3.5, there are multiple ways for foundations to receive money inflow. The distribution does also vary depending on the type of the foundation. As a generalization derived from the database and academia (e.g. Virén 2014), the grant-making foundations finance their activities with income from investments, whereas operational foundations receive funds from government, or from private sector donors. Virén notes that one of the key attributes for increasing grants is income, especially if it is derived from income from investments.

In order to keep the income stable, many foundations have adopted the strategy to invest in stocks. As dividend income is generally less volatile than asset valuations, it is an attractive option for investors who place greater value on the predictability of returns (Price et al. 2012.) Steuerle (1999) has stated that prior to the new legislation, foundations were keen on comparing their payout with respect to their recognized income. Thus, the positive (negative) turn in earnings would grow (decrease) the payout as well.

As a note, Finnish foundations do not follow the same legislation as e.g. the foundations in the USA. Therefore, the determinants may vary from one country to another. However, in recent studies (Desai & Yetman 2015; Ahdekivi 2016) foundations' revenues have been addressed as determinants of quality of governance. They furtherly act as size indicators as the balance sheet items may be problematic in a comparison with other payout variables. Additionally, it helps us to see whether an increase in revenues result in an increase in payout, too.

3.2.5 General support

The general support received from the public sector can be vital for many activities (Virén 2014). This occurs from the questionnaire aimed at foundations in 2010 (Tervonen 2012). The general support exceeded a notable amount of over EUR 500 million in the questionnaire although a small proportion of foundations receive it. The portion was around 300 foundations from over 2800. Apart these numbers, the question here lies in the use of these supports. Generally, it would be expected that the support should be used relatively fast to promote the mission of the foundations. However, if we remember the speculation that foundations can hoard income and not increase their distribution (Sansing & Yetman 2002), the connection between general support and payout is intriguing.

3.2.6 Mission

As foundations can be categorized into 12 different categories such as culture and recreation, education and research, health etc. (Salamon & Anheier 1996; presented in Table 3), the payout ratios of these foundations can also vary. As Laatikainen (2015) reports, some grants can be perennial, smoothing the outflow of cash to several fiscal years. This may decrease the foundation's urge to take risk and also limit the outflow of money (grants). On the contrary, it may also help them to forecast their annual in- and outflows of cash. Lawrence (2008) notes, that foundations having education as their primary mission industry were responsible of more than 25% of all grant dollars distributed between 1999-2005. Their proportion of grants, however, decreased after a peak in 2001. Generally, the order in the rank of

distributions stayed quite stable, but human services passed health as the second largest distributor of grants.

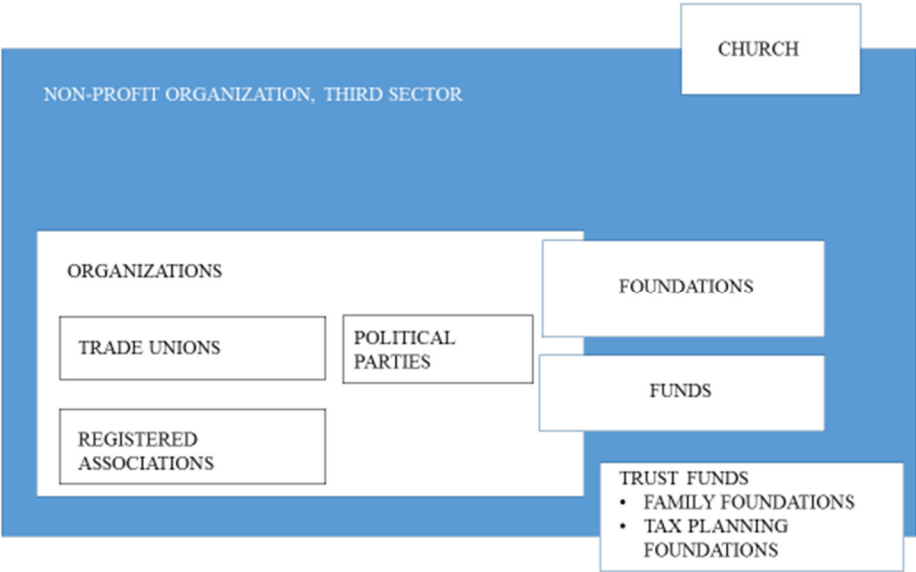
Additionally, Khanna & Sandler (2000) found in their study that religious charities are net revenue maximizers whilst other non-profit industries fall short of maximizing their net revenue. Core et al. (2006) and Dudley et al (2015) found, that different mission industries have also different cost structures. Therefore, they state that greater overhead (ratio of officer compensation to grant contribution), for instance, does not mean these foundations (whose mission industry is health) are fiscally irresponsible and inefficient. It reflects more the different types and objectives (quality-over-quantity).

4 PRIOR LITERATURE – FOUNDATIONS

4.1 DEFINITIONS – WHAT IS A FOUNDATION

Before stepping any further, defining the third sector should be conducted as the features and definitions for e.g. foundations may differ from one country to another. Additionally, the term “third sector” itself is also somewhat new (Manninen 2005) and vague (Virén 2014) concept, thus a certain clarification is in order. In this research, the term foundation is intended to be used for association of public good and not for trusts, family funds or trusts as they do not fulfill the aforementioned definition, and are thus not tax exempt entities. There are different ways to categorize the third sector (e.g. Hansmann 1980), but as the features of third sector can differ from one country to another, the illustration clarifying the Finnish structure was adopted to the study and that can be seen in Figure 1 (modified from Ahdekivi 2014).

Figure 1. Illustration of the third sector in Finland



Although the parties of third sector are judicially different, their operations and nature can actually be very similar to each other. For instance, some associations can well be in the same branch as foundations (for instance in child welfare, where there are both associations and foundations promoting the same cause), but some of these entities such as trust funds and family foundations are not meant to promote public good. They are still, however, included in the third sector (Ahdekivi 2014). As a note, in the sample some of the foundations are categorized legally as funds, but foundations do in many cases govern some of these funds. Moreover, as the fund can be established inside a foundation as they do belong to the Delegation of foundations and funds and they act as foundations, we address them in this research also as foundations. The same procedure was also conducted in the studies of Ahdekivi (2014a; 2016) and Virén (2014).

Regarding foundations, the most important definition to understand regarding this study is grant-making foundation. As I have mentioned, there are generally speaking, two types of foundations: operative and grant-making (Wijkström 2004; Wijkström & Einarsson 2004). These grant-making foundations and trusts (GMFs) are nongovernmental, non-profit organizations that have their assets are managed by a board of trustees to generate the financial resources needed to promote the foundation’s mission. The mission and its specific goals are then stated by the foundations’ donors and codified in their charters (Andrews, 1956). As we can also see from Table 3 below, GMFs distribute their grants to several fields, from environment to religion. These grants support deserving charitable organizations and fund innovative policies (Barbetta et al. 2015.)

Table 3. The mission classification (ICNPO) of foundations in the sample (n=109)

ICNPO-class description	ICNPO – class	Number of foundations	Share of total, %
Culture and recreation	1	22	20,18
Education and research	2	53	48,62
Health	3	6	5,50
Social services	4	4	3,67
Environment	5	1	0,92
Development and housing	6	3	2,75
Law, advocacy and politics	7	4	3,67
Philanthropic intermediaries and voluntarism promotion	9	6	5,50
International	9	0	0,00
Religion	10	1	0,92
Business and professional associations, unions	11	5	4,59
Not elsewhere classified	12	4	3,67
Total		109	100,00

4.2 FOUNDATIONS IN GENERAL

There is a substantial amount of academic literature regarding non-profit organizations, but the data available and usefulness of academia for a particular issue will vary as the legislation and nature of non-profit organizations can be very different. This section covers briefly the most important features of foundation in general; the next section provides a more detailed look in the Finnish foundation field. Some of the information may overlap with each other, but differences in the global field of non-profits does also occur (see e.g. Anheier 2005; Barbetta 2015.)

The amount of foundations does heavily differ from one country to another. As Finland has around 2850 foundations, in Sweden the total amount of registered and unregistered foundations is around 40 000 (Virén 2014). From Nordic countries, in Norway the amount of foundations is around 7 000 and in Denmark there are about 14 000. The claim, that in more developed countries the amount of foundations is larger than in less developed, seems to hold as for instance in Estonia the amount of foundations is only around 500 (Lagerspeltz & Rikmann 2003). In the Anglo-Saxon countries, the number of foundations is fundamentally larger. In the UK there are more than 160 000 foundations and in the USA the amount is at least 630 000, of which around 98 000 are private foundations. (Roeger et al. 2012). A brief and compiled outlook regarding foundations, about e.g. the legislation and payout policies of American and European foundations is provided in section 3.1.3 (Table 2).

The foundations have, however, several things in common with each other. Firstly, they do not have owners and do not distribute profits to the owner, respectively. On the other hand, Ahdekivi (2016) notes, that financiers or grantees can be seen as foundation's owners. This claim does not de jure, hold, as they do not have juridical rights to the payout etc. of the foundation. Secondly, the board is highly responsible of mitigating fraud and ensuring the performance of foundation to fulfill its mission in the present and in the future. Thirdly, they are non-governmental (but can of course receive funding from government), so they are in this sense independent in their decisions (Keating et al. 2005.) Thus, despite the differences between foundations, the basic idea to act for the public good is universal.

4.3 FOUNDATIONS IN FINLAND

In order to focus more in on the Finnish foundation in particular, certain characteristics of charitable foundations, and the recently updated legislation should be clarified. In this section, I will go briefly through following features regarding ownership, taxation, financial administration, general issues of board's responsibilities and rewards. As these features differ quite a lot from for-profit organizations, and additionally the old law was amended, a brief clarification is needed about the key issues important for the research topic.

The legislation is complemented with the guidelines compiled by Delegation of foundations and funds. Additionally, PwC has also provided its own booklet (2015) of guidelines for more open and effective reporting. In order to clarify the ruleset, the legislation determines the boundaries and common practices. The purpose of these aforementioned booklets is to provide consistent guidelines and better processes for reporting. The foundations have different needs and demands that need to be taken in to account in the financial reporting, for instance.

4.3.1 Economic importance

As stated already in the introduction part, the economic importance of foundations is considerable. The market value of their assets reach to EUR 20 billion (Ahdekivi 2014) and they provide employment for a total of around 7400 person-years (National Audit Office of Finland 2010). This result is, however, an estimate as the results were gathered from a survey, where the response rate was around 25% of all Finnish foundations. Nonetheless, the role of foundations as employers and investors is notable. This has also been acknowledged lately in research, e.g. Ahdekivi 2014a & 2016. Some foundations can be considered also as active and long-standing owners. The number of these owners is, however, quite small as foundations comprise only 1% of three biggest owners of companies listed in OMX Helsinki (Ahdekivi 2014a). Nevertheless, foundations have been described as “anchor owners”, meaning that they are persistent in their holdings and do have members in the boards of companies. The number of these foundations is very small, thus this role is not that significant in comparison with other owner types such as pension funds, state or foreign ownership (Ahdekivi 2014a.)

It is of course clear that not all foundations are equally meaningful to the Finnish economy. As the smallest foundation have asset values of only EUR 40-2500, their importance to the sector is very small. Additionally, many foundations do not act as active owners as they see that their size or expertise would not necessarily be enough to have a bigger role e.g. in the board of a company (Ahdekivi 2014a & 2016). To the question, whether different owner types are truly needed or not, a separate debate would be needed. On the issue of economic importance Virén (2014) concludes that firstly, the biggest foundations are big enough to give stabilizing input to the market. Secondly, they are able to carry out their role in corporate governance. Finally, they are also able to provide long-term funding to the private sector. Thus, their role in Finnish economy is crucial and notable.

From the historical side we can also observe the importance of Finnish foundations. According to Virén (2014), they can be interpreted as one of the key influencers of Finland’s success in academic fields. The support for science was in the 1950s and 1960s essential and fruitful (Tiitta 2015). Tiitta has stated

that the Finnish Nobel prizes in science would highly be the result of foundation funding. Therefore, the social and economic importance of foundations should not be underrated.

4.3.2 Tax exemption of foundations

Initially, foundations are not considered as corporations as they do not have owners. However, the foundations are treated in taxation as corporations. For a foundation to be exempted from paying taxes from its income, it has to fulfill the criteria of a non-profit corporation mentioned in the Income Tax Act (1535/1992). These non-profit corporations are not automatically fully exempted from taxes, but they do have to pay tax on their income if the income is under Business Income Taxation Act (=BITA) (360/1968). There are around 400 so called super non-profit corporations (Finnish Tax Administration, 2016) that are partially or fully tax exempted, if they fulfill the strict criteria of *Law on tax exemption on non-profit corporations* (680/1976) (Hannula et al. 2015, 84-86.)

If a foundation is able to fulfill the criteria mentioned in the section 22 of the Income Taxation Act (hereinafter referred as ITA) (1535/1992) all of foundation's generic fund-raising activities are then tax-exempted. The law states, for example, in the section 23 that income received from arranging sports events and from selling members' magazines is not tax-exempted. In addition, income from real property and timber is usually interpreted as non-tax-exempted income. The result how tax authorities interpret foundations status is usually derived from foundation's activities, rules, financial statements and annual reports. Therefore, it is very important how foundations are able to communicate with its stakeholders, and signal the true nature of the foundation to them (Hannula et al. 2015, 85-87; Viren 2014.)

The new legislation can cause the grant-making foundations problems to maintain their status of being a non-profit organization, as the Tax Administration can explicate the foundation to be non-tax-exempt. This is based on the opinion that giving grants does not automatically make the foundation a non-profit organization. Therefore, a grant-making organization should also have some other active non-profit activity, especially if the activities are focused only on supporting one particular purpose. (Hannula et al. 2015, 91.) There is a case law regarding these issues, the most recent case being from 2015 where the foundation was able to prove its non-profit nature (Supreme Administrative Court 125:2015).

On the other hand, if we take the possible distortion of competition into the picture, the problems in tax legislation are also apparent. These problems occur if the foundation does arrange accommodation or leisure services that are normally liable to taxation. The judicial literature (e.g. Myrsky 2014) and authorities (Ministry of Finance 2009) have on-going discussion regarding these issues as there are possibilities to discretionary ruling (Virén 2014).

4.3.3 Ownership of foundations

Foundations do not have owners. Contributions and donations that are paid to the foundation do not act purely as an investment, thus those do not give the donor any rights to vote or receive profit distribution. Ahdekivi (2016) addresses this lack of owners as one of the defining characteristics of non-profits and it indeed is a rarity especially if the economic impact (see section 1.1) of non-profits is put into consideration.

The possible way how a donor can have more power on their contribution is to establish a nondependent foundation (also called as self-financed fund) where the income of this foundation's assets are maintained inside this entity. The assets are, however, given under the management of another entity, usually a foundation as well. These are not registered and are not legal persons themselves. The assets are maintained by the foundation that has received those funds, but they must follow the rules given in the charter (e.g. will) (Delegation of foundations and funds 2015).

This lack of owners does address one of the already earlier mentioned key problem of foundation: the possible problems in corporate governance (Ahdekivi 2016). The lack of supervision and monitoring have been under debate in the recent years (National Audit Office of Finland 2010; Pykäläinen-Syrjänen 2007, 235), but the claim and the whole significance of this report has been steeply questioned by other parties such as Delegation of foundations and funds (2010). In their comment on the report by National Audit Office of Finland they claim that the report was intentionally flawed as the language used was written subjectively, made inconsistent generalizations about the foundation field and the data was also intentionally picked.

4.3.4 Board's responsibilities and rewarding

The board acts as the top management of the foundation. Although there can be other organs, such as a CEO, he works as an employee of the foundation. The board's authority is based on the Foundations Act, documents of establishment, rules of the foundation and the decisions made by foundation itself. The authority is therefore stricter than in General Corporation Law and decisions a foundation makes must be aligned with the aforementioned restrictions in board's authority (Hannula et al. 2015, 43.)

The job description of the board can be very open, but among general activities the board should especially monitor the assets, bookkeeping and financial administration. Financial management belongs explicitly to board's responsibilities, but they are allowed to use internal or external advisors. It can even be outsourced to a third party, such as a banking company, but the board must always determine the guidelines for investing activities. Ultimately, the board is always responsible for all decisions regarding

financial management, and must monitor that the guidelines are being followed. (Hannula et al. 2015, 17 & 43.)

In a questionnaire carried out by Tervonen (2012) on behalf of Finnish Ministry of Justice, board takes care of the investments in a majority of foundations (60%) and only 9% has completely outsourced their investing activities. The results, however, are just approximate as there was only 166 respondents. As there are more than 2800 foundations in Finland, author admits that exhaustive results cannot be necessarily delivered. In my sample, insider risk is apparent e.g. with the cases of Aalto-korkeakoulusäätiö and Teknologiateollisuuden 100-vuotissäätiö as they have many insiders from listed companies in their boards. Yet, the majority does maintain the investments without outside help.

Although the focus of the study is not to explain deeply the investment styles of foundations it is useful to know the differences between the rationales behind these decisions. As the foundation law does enforce foundations to report and monitor better people close to foundations (Perälä 2015b), some foundations such as Aalto-korkeakoulusäätiö and Teknologiateollisuuden 100-vuotissäätiö have decided to invest in equity funds in order to avoid the insider risk. Both of the foundations' boards do consist of decision-makers of Finnish listed companies. Referring Ahdekivi (2014), the wealthiest foundations (over EUR 10 million balance sheet) tend to have a third party treasurer, but this is only a generalization. There are also large foundations who use solely their own knowledge and connections in their investment decisions (Laatikainen 2015). In addition to pointing out the diversity of the field, this notion also reasserts the importance to examine the rewards granted to the board of the foundation.

As the board carries a vast amount of responsibility regarding the decisions made for the foundation, guidelines and legislation for compensation are provided. Principally, the law states that organs of a foundation can be remunerated on their activities for the foundation, unless the particular foundation does have rule prohibiting it (Foundation Act 487/2015, Chapter 3 Section 9). The law on compensation has experienced some changes as the legislation changed in 2015 and the amendment was, in this case, only on the phrasing regarding the amount of remuneration of the board. The old law stated that the amount should be reasonable (Repealed Foundation Act 109/1930, Chapter 11), as the new law states that the reward should be just accustomed (487/2015, Chapter 9). The law does not explicitly state what is considered to be accustomed, rather it is derived from the scale, degree of difficulty and time needed to carry out the foundation's activities. (Hannula et al. 2015, 36-37 & Hannula et al. 2011, 22.) The aim for this change has been to enable the remuneration to be convergent with the remuneration in similar corporations, foundations and organizations (Jauhiainen 2015).

What changed concretely in the new law compared to the old regarding remuneration was that the assessment regarding the amount of remuneration is now a part of the auditor's report (487/2015,

Chapter 4 Section 2). The auditors must also consider the conventionality of compensation paid to the organs, also for the organs of foundation's possible subsidiaries. These measures emphasize the role of the auditor, but offer a better way to track down the spending and make the foundation more transparent to the society and stakeholders, which has also been one of the aims of the amendment (see Jauhiainen 2015).

4.3.5 Financial management, fund-raising and other ways to gather finance

In general, financial administration of foundations consist of financial management, investment activities and business activities that are mostly under board's control and responsibility, but can also be partly a part of CEO's responsibilities as well. (Hannula et al. 2015, 78-79.) According to the law, the foundation's financial management must support the purpose of the foundation, and it should always be for the benefit of the foundation. Additionally, the financial management must also be executed by following a great carefulness and be a planned activity (487/2015, Chapter 1 Section 5; Hannula et al. 2015.) The previous statement has changed during the amendment as the law previously stated that the assets must be invest in a secure and profitable way (109/1930, Chapter 2 Section 10) as the purpose was that foundation should be able to fulfill the deed as long and as good as possible, even to perpetuity (Hannula et al. 2011.)

In open debate the issue of perpetuity has been discussed during the years in order to awake conversation, whether it is necessary for all foundations to exist from here to eternity (Krehely & Rettig 2004; Bradley et al. (2003); Thelin & Trollinger 2010) As foundations' purposes and needs differ, so could be the case with foundations as well. For example, Bill and Melinda Gates Foundation plans that the foundation will be closed after 50 years of its trustees deaths (Foundation Directory Online 2016). This gives quite a different function for a foundation, but the statement here is "*to do as much as possible, as soon as possible*" (Gates Foundation 2016), and can partly prevent the foundation from straying away of its original purpose. This aberration from original purpose has also been a part of the discussion regarding foundations (e.g. Wall Street Journal 2012 & Madoff & Reich 2016). Madoff & Reich state that foundations should carefully decide whether the future generations would be best served with either saving the money and spending it later, or should the money be spent right now.

Without taking part in the academic discussion regarding the lifespan of a foundation, the law does not any more explicitly state about means the assets should be maintained. It is regulated under the general requirement for the board and other organs to act diligently and for the benefit of the foundation, thus providing certain limitation to their risk taking behavior (487/2015, Chapter 1 Section 5; Hannula et al. 2015, 73.) However, many foundations claim to be risk-averse but their investment behavior does not necessarily support this objective (Ahdekivi 2014a). They tend to have only a few different companies

in their portfolios and they actually carry sizeable and concentrated equity risk, as their share-to-share positions can stay intact for years (Ahdekivi 2016).

Referring to the section 3.1.1, foundations' sources of income can be divided into two groups, depending on the type of the foundation (grant-making or operational). This simple classification is not, however, a comprehensive one as many foundation do both give grants and have operations (Virén 2014). Then again, some foundations do have a solid amount of assets, but are still operational foundations. Housing foundations act as a good example of these as they own real estate and rent out the apartments⁵.

Foundations gather finance mainly from four sources (Finnish GAAP 1339/1997);

1. Operations: revenue, costs and net income
2. Investment activities: revenue, costs and net income
3. Donative activities: revenues, costs and net income.
4. General support received (=public sector support)

The main source of finance in large Finnish foundations comes from investments (Virén 2014). Our own sample from grant-making foundations supports this observation as over 40% of foundations' annual income is comprised of income from investments (Table 4). Interestingly, donations from private persons or corporations (Hannula et al. 2015, 82-83; Okten & Weisbrod 2000) comprise only around 4% of all income. This observation is, however, in line with previous research (Ahdekivi 2016) as she claims that many grant-making foundations do indeed possess a sizable amount of endowment. In our sample, the foundations seem to be quite independent from private donations, but not from general support. Our sample is however, distorted by one foundation: foundation of Aalto University (Aalto-korkeakoulusäätiö) received general support of more than EUR 240 million per year.

⁵ An example of this would be housing foundation HOAS. Data retrieved from database and annual reports.

Table 4. Breakdown of foundations' revenues 2010-2011

Source of revenue	Income from operations	Donations income	Income from investments	Extraordinary items income	General support income	Total revenue
2010, EUR 1000s	314 733	53 706	533 521	108 046	252 355	1 262 360
2010, %	24.932	4.254	42.264	8.559	19.991	100.000
Mean, EUR 1000s	2 887	493	4 895	991	2 315	11 581
Std. Dev., EUR 1000s	16 908	2 427	7 740	10 217	23 458	41 981
Min, EUR 1000s	0	0	0	0	0	40
Max , EUR 1000s	161 356	20 000	46 626	106 672	244 934	410 299
Skewness	8.259	6.876	3.062	10.439	10.435	8.356
2011, EUR 1000s	323 204	50 464	489 556	32 481	277 355	1 173 063
2011, %	27.552	4.302	41.733	2.768	23.643	100.000
Mean, EUR 1000s	2 965	463	4 491	298	2 545	10 762
Std. Dev., EUR 1000s	16 896	2 124	6 894	2 293	26 021	43 420
Min, EUR 1000s	0	0	0	0	0	75
Max , EUR 1000s	160 506	20 000	39197.825	23395.097	271 702	441 230
Skewness	8.125	7.763	2.834	9.718	10.434	9.258

Despite the one outlier in general support income, our sample's foundations do not generally receive their income for general support. This is also the case in the USA, where large foundations receive under 20% of their income as general support and private donations (Arnsberger 1995). The income is received from investment income which also is the case in large Finnish foundations. The observation that many foundations are also promoting their mission via operations Virén (2014) seems also to hold as many foundations receive income also from their operations.

4.3.6 Example: Jenny ja Antti Wihurin rahasto

As an additional example of a somewhat typical foundation and its financial statement, I have enclosed excerpts (Appendix A) from the 2011 annual report of "Jenny ja Antti Wihurin rahasto". Despite that it is named as a fund, it acts very much like a foundation, is registered as a foundation in the register of Finnish patent and registration office. Moreover, it also works in cooperation with other foundations as well. For instance, during 2010-2012 a number of large foundations established together a pool for post doc researchers. The idea was to provide the young researchers funding to support their internationalization abroad from a single source of capital. Thus, we can well regard it as a grant-making foundation, so it will be also called as a foundation in this section.

The foundation's financials are quite typical for a grant-making foundation. It does not have any operative income, only costs from grants, personnel and other costs. It has five employed staff members, but does pay only EUR 6 120 to board of the foundation, being close to the median of compensation paid to the board. The income from investments covers all the cost of operations and grant distribution. More specifically, the majority of income is received from dividends (58.940%) and rental revenue (25.982%) and only smaller proportion from selling a part of their stock portfolio (5.314). The amount of paid tax is very low, only 0.02% from the result surplus, which exceeds EUR 16 000 000 in the current year. Thus, the foundation is well self-endowed as it did not receive any donations or general support during the fiscal year 2011.

The balance sheet is also quite typical. On the assets side, immaterial and material goods represent only 0.050% of the total balance sheet and other long-term investments such as are only around 0.880% of the total balance sheet value. Thus, stocks and shares represent 72.951% of the total balance sheet value. The remainder is comprised of bonds (14.680%) and receivables from subordinated loans (2.758%). For liabilities, the amount of equity comprises 95.066% of total amount of liabilities. Furtherly, the equity includes separate, independent funds, contingency fund (the main source of grants) and the founding capital of the fund. The remainder of liabilities is comprised mainly of remaining grants that have not yet been cashed out.

If we take look on notes to the financial statements we find interesting data from the historical and market values of the fund's investments. The differences here are notable as the historical value of the quoted investments is 55.885% of the market values of these investments. This does not include their ownership e.g. in Wihuri Oy which is worth of around EUR 40 000 000 measured from the equity value of Wihuri Oy. If the market values of these investments would be applied to their balance sheet, the foundation would seem notably wealthier compared to the current state. Although the issue of fulfilling demands decision-making and stewardship (from chapter two) cannot be answered upon only one case example, it displays us the foundation-specific traits of their income statement and balance sheets.

4.4 APPLICATION OF PAYOUT POLICY THEORIES TO FOUNDATIONS

As we apply these aforementioned theories to foundations, we must bear in mind the differences between legislation and other features of foundations. As we remember from Table 2, the legislation for payout policy differs from one country to another. Thus, the absence of coercive legislation does quite much drop out this theory for Finnish foundations. The Finnish foundations have also tax benefits but as there is no explicit threshold for annual payout, the decision for foundations' tax-exempt nature is not reliant on the target of these payouts. As the mission of foundations should be principally for the benefit of public good in order to be tax-exempt, only through malpractices in their activities or acting against

their mission the foundations will not be tax-exempted. Thus, this theory of receiving tax benefits acts more as a built-in condition for foundations as they do not principally strive for profits, but rather act for public good. To the question whether the existing tax benefits lead to the maximum effect for the benefit of the public good, is a matter of another discussion. According to Virén (2014), the current system does seem to work relatively well.

The theory of asymmetric information seems the most promising fitting the payout policy of Finnish foundations. As their primary objective is to provide grants for the most viable and profitable projects alongside their own possible projects, the knowledge and expertise appear to be high in the foundations. The donor expects the donation to be channeled to the most prominent grantee who promotes the mission of the foundation. The foundations act here as intermediaries who provide their own knowledge and furtherly then “outsources” the contributions to the grantees with minimal expense (Young 2010; see Faulk et al. 2012; Anderson 2011; Ahdekivi 2016). Ahdekivi continues that, the boards may often be even working on pro bono –basis, thus no compensation is provided. Therefore, the payout policy may well be explained through the process of evaluating annual applications and assessing the “profitability” of these investments. As there is no coercive legislation for the annual payout, the amount of distributions can fluctuate annually.

5 HYPOTHESIS DEVELOPMENT, DATA, AND METHODOLOGY

The structure of this chapter is following: firstly, I will present the hypothesis for testing the association of financial reporting approach and payout ratio. Additionally, I will conduct predictions on the connection between factors affecting payout ratio. Secondly, I will present the data used in the study. Thirdly, the methodology, i.a. the mathematical model used in the study.

5.1 HYPOTHESIS DEVELOPMENT

The following hypothesis used in the research are formed upon the literature presented in the previous chapters of the study. They are based on the literature regarding payout ratio, choice of financial reporting approach, research and information on foundations in general and especially Finnish foundations. The hypothesis is ultimately part of my own intuition and reasoning. I have based the hypothesis on an assumption that variables have either positive or negative connection with the payout of a foundation.

The first hypothesis relates to the relationship between the choice of financial reporting approach and payout. As seen in Table 1, there are huge differences between the values of historical and market value of foundations’ assets. Moreover we know that the non-profits can base the amount of grants e.g. on

three or five year averages (Hamilton 2011) and thus tend to smooth the amount of grants given every year. Therefore, a possible upcycle of economy would not fully reflect to the amount of payout if it is based on an average. On the other hand, if the book-to-market ratio of assets moves closer to one (the historical price is the same as fair value) the value of distributed grants should also be higher if the payout ratio would be maintained on a steady level in comparison with either assets or revenues. Steuerle (1999) and Fisman & Hubbard (2003) state that some foundations' amount of grants do follow the stock market cycle in their giving. Based on these results we form the hypothesis:

H1: The higher book-to-market ratio is positively associated with the annual payout of foundations.

In this section, the predictions regarding the control variables of payout that have been addressed to determine the amount of payout in grant-making foundations. The variables presented here are following; board compensation, market value of assets on balance sheet, amount of cash on balance sheet, income, general support and mission of foundations.

As stated in previous sections, the prior literature regarding the effect of board compensation is mixed. In one hand, being in a board of a foundation is a very responsible task as they are ultimately responsible for the decisions regarding payout, financing and operative decisions of the foundation. Therefore, the foundations are willing and capable of remunerating the professionals (Baber et al. 2002; Barragato 2002 and Hines et al. 2010.) Then again, Theuvsen (2004) questions the concept of compensation based on e.g. performance and Goulet & Frank (2009) emphasize that there are different motivating factors between the three sectors. Boris et al (2008) mention that many board members do not receive any compensation at all. Thus, the motivating factor here could be e.g. a task of honor instead of a monetary compensation.

According to Clotfelter (1992, 217) a very low payout rate may be a signal of excessive administrative costs. Depending on also the measures of performance, the agency problems (Bebchuk & Fried 2003) between performance measures and payout can arise if the board aims at growing the amount of assets in perpetuity. Sansing & Yetman (2002) studied the relationship of compensation and distributions and received supporting the results of the negative association between them. Hence, I predict that managerial compensation would have negative association with distributions.

We can remember from previous sections that foundations struggle with a dilemma of maximizing the current payout and being able to promote the mission to perpetuity (Toepler 2004 & Klausner 2003). Sansing & Yetman (2006) found in the later study that larger foundations tended to have lower payout rates, although their previous study did not find a significant relationship. Smaller foundations may also pursue to be bigger and thus more reputed, making it also more independent of donations. Then again,

if we consider that foundations would maximize the current payout, the growth of their asset portfolios will be lower as generally the activities of grant-making foundations are being financed with income from investments (Virén 2014). Although there is some evidence that the relative payout will decrease in larger foundations, the payout will ultimately be in absolute terms higher in larger foundations. Therefore, I expect that the correlation of the relative payout and asset value is positive.

The amount of cash tells us the amount of highly liquid assets on the balance sheet. Having a low amount of cash on balance sheet reduces holding costs (Eppen & Fama 1969) as the money could be used to new investments in order to earn more in the future. Then again, the foundations should also be able to finance the operations of the foundation and be able to distribute grants. It is possible that foundation receives general support that is immediately distributed as grants. There is evidence that foundations tend to optimize their amount of cash in the balance sheet (e.g. Coe 2012).

Arnsberger (1995) emphasizes the role of income on investments as way to support their charitable giving. Thus, the income is channeled furtherly to payout of foundations. Abdulrahman (2007) claims, that current earnings do not have a significant link to the payout, the situation is different for grant-making foundations. Their primary objective is to promote their mission by distributing grants. Depending on the objectives of the foundations to focus on current spending or save up for future (Deep & Frumkin 2001), the effect of an increase in revenues may vary. Nevertheless, I predict that revenues have still a positive connection to the payout.

The general support foundations receive are generally gratuitous, but they are, however, discretionary. The support received can be targeted to finance a particular project spanning more than one fiscal year. Yet there can be numerous projects going on and the support may be targeted other purposes as well. We can argue that larger supports should ultimately result in higher payouts. Thus, the prediction for general support and payout is that the correlation should be positive.

The final determinant, foundation's mission industry, will be used in the additional analysis of the study. As there are 12 different mission industries, no predictions are provided for the regression analysis.

5.2 DATA

The original data for the research was compiled by Finnish Ministry of Justice, as there was also a need to find quantitative evidence from foundations for redrafting the legislation regarding foundations. The Ministry's own legislation redrafting personnel compiled data regarding e.g. the foundations' rules. I refined this data as I corrected the numbers by checking the original filings of foundations. The market value of investments was also collected by hand for the 200 largest foundations. The amount of foundations was 891 in Ahdekivi's study, but as 109 largest grant-making foundations represent around 71 percent of sample foundations' aggregated market value of assets at the end of 2011 and 87% of all investments, the sample of 109 largest foundations does still represent the most important actors in the grants market. As the previous studies have not included a revised database from grants given by foundations, it was included to the database from foundations' annual reports retrieved from Virre-database, which is maintained by Finnish Patent and Registration Office. The database offers information from all Finnish foundations which have been added to the database. All the financial data for foundations was compiled to database in euro. The estimate of the total amount of grant-making foundations reaches to around 800, but as stated before, the sample used does consist the vast majority of assets.

The sample of 200 foundations was furtherly refined as the non-grant giving foundations were removed from the sample. As the original data was partly inconsistent before the filings were checked, the non-grant giving foundations were omitted from the research data by checking their accumulated grants from years 2011-2012. The amount of grants was checked from financial statements, totaling an amount of 109 foundations to be included in the research sample. The relative weight of grant-making foundations would not have grown even if the sample size would have been expanded to 300, as the amount of grant giving foundations would have been 150 from 300 (50%). The sample of 109 foundations covers almost 55% of the sample of 200 foundations and covers still ~71% of foundations' market values of assets in 2011. The market values of e.g. investments were compiled to the database using foundations' own filings, thus no external conversion was carried out in the process.

Internationally, the skew⁶ distribution of assets is also notable; Arnsberger (1995) noted that largest (more than USD 100 million AUM) comprised less than 1 percent of all foundations, but represented 60 percent of total foundation assets. (For a description about other countries, please see e.g. Sivesind & Arnesen 2015; Einarsson & Wijkström 2015). In Finland, there has been evidence that the number of smaller foundations (here the amount of total assets under EUR 0.5 million) has decreased from 25% to 20% between years 1993-2005. Synchronously, the number of larger foundations has respectively

⁶ If distribution is unbalanced either to left or right, it is skewed (Hair et al. 2010). Here it means that a large portion of assets is in possession of a small number of foundations.

grown (Oesch 2008). Thus, the skewness receives support also from Finnish and European (Sivesind & Arvesen 2015; Einarsson & Wijkström 2015) academia.

5.3 METHODOLOGY

For the current model of the study I will use of the Ordinary Least Squares (OLS) regression. This method is used to find association between the chose explanatory variables and payout ratio and other characteristics of a sample of Finnish foundations. The OLS regression results are estimated coefficients, which show connection between explanatory (independent) variables and the dependent variable and the significance of the relationship between the variables. The OLS regression has been used e.g. by Abor (2006) and Sansing & Yetman (2002) to study the payout ratios and distribution policies of corporations and non-profits.

Model 1 comprises of 218 data points to analyze the association between payout ratio and foundation characteristics. In our sensitivity analysis these data points will be divided into three subgroups, but no additional variables will be added.

$$1. \text{ distribution}_t = \beta_0 + \beta_1 \text{compensation}_{t-1} + \beta_2 \text{BMR}_{t-1} + \beta_3 \text{assets}_{t-1} + \beta_4 \text{cash}_{t-1} + \beta_5 \text{revenues}_{t-1} + \beta_6 \text{general support}_{t-1}$$

In order to consider scale-related effects and make the estimate more accurate, I have scaled the first model. This helps us to improve the accuracy of the model as biased estimates of the coefficients of parameters and the constant. Additionally, the coefficient of determination could also be unrealistically high. The variables regarding distribution (=payout), compensation, book-to-market, assets, cash, revenues and general support have all been scaled using natural logarithm. The model deviates from other models (Mehrling 1999; Fisman & Hubbard 2003; Renz 2012a), but the aim here was to examine the relationship between payout and book-to-market-ratio and other determinants without distorting the results by having problems between the reliability. Adding e.g. the amount of assets to distributions would have influenced the book-to-market ratio as both in these variables the asset values would have been present.

The association between foundation's grants and other variables is examined using the numbers from previous year's financial statements. The cause for this is the implication that companies do also use the numbers from previous year to estimate and propose the payout for the next year. As foundations do also have budgeting and forecasting the same way as corporations, this method was chosen. There is also evidence (Cohen 2012; Renz 2012a) that some of the foundations' payout ratios tend to lag behind

the asset trends. This indicates that they tend to plan their budgets for next year is at least partially based on previous year's asset values.

6 RESULTS

6.1 DESCRIPTIVE STATISTICS

I present in Table 5 the descriptive statistics for the variables used in the study. In the upper part of the table, I provide some additional statistics regarding the sample. The aim of these statistics is twofold. Firstly, the objective is to give more insight of the nature of the sample and secondly, to point out some key features of the Finnish grant-making foundations through statistics.

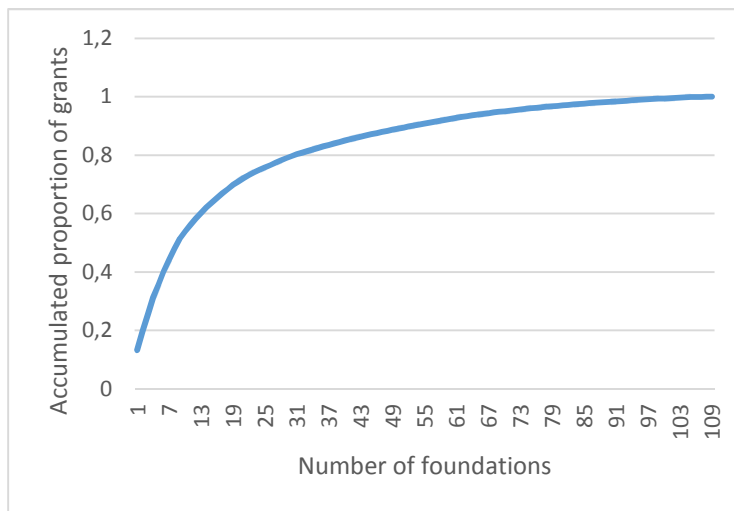
The amounts of grants distributed yearly show us discrepancies between foundations. The smallest amount of grants (EUR 29 000, Padasjoen säästöpankkisäätiö 2012) is more than 1000 times lower than the largest (EUR 31 014 940, Suomen kulttuurirahasto 2012). The median for grants is EUR 801 000 and average is EUR 2 210 000. Furtherly interpreted, the deviation in grants is also notable as it is over EUR 4 140 000 in the sample. It is good to remember that although these foundations represent the largest grant-making foundations, we can still observe huge differences in the statistics of these foundations. In order to provide further statistical evidence regarding the balance of the distribution of grants, the measure of skewness was provided. As we can see from the Table 5 skewness statistics, the distribution is highly skewed. In other words, a relatively small number of foundations distribute a major portion of grants.

Table 5. Descriptive statistics (N=218)

Variable	Short definition	Mean	Std. Dev.	Min	Median	Max	Skewness
grants	grants distributed in year t (\$1000s)	2 210	4 140	29	801	31 015	4.075
fees	compensation paid to the board in year t-1 (\$1000s)	36	104	0	7	991	6.539
assets (historical value)	historical value of assets in year t-1 (\$1000s)	72 559	160 046	4 346	23 788	1 281 188	4.583
assets (market value)	market value of assets in year t-1 (\$1000s)	100 945	234 295	4 346	29 255	1 398 127	4.018
cash	value of cash in year t-1 (\$1000s)	3 369	21 409	0	452	267 789	10.846
revenues	amount of revenues in year t-1 (\$1000s)	11 169	42 610	40	2 587	441 230	8.771
general support	general public support in year t-1 (\$1000s)	2 430	24 716	0	0	271 702	10.846
distribution	Natural Logarithm of grants distributed in year t	13.718	1.248	10.291	13.593	17.250	0.491
compensation	Natural logarithm of compensation paid to the board in year t-1	6.240	4.912	0.000	8.841	13.806	-0.376
BTM	book-to-market ratio of assets in year t-1	0.839	0.181	0.196	0.889	1.114	-2.053
MVA	Natural logarithm of market value of assets in year t-1	17.412	1.185	15.285	17.192	21.058	1.227
cash	market value of cash in hand and at banks in year t-1	12.760	2.360	0.000	13.020	19.406	-2.053
revenues	natural logarithm of total revenues in year t-1	14.947	1.356	10.597	14.766	19.905	0.566
general support	natural logarithm of total general public support in year t-1	0.772	3.290	0.000	0.000	19.420	4.251

I illustrate the skewness of the grants in the figure below. From the figure, we can see that 10 largest distributions in year 2012 cover over 50% (53.125%) of total distributions. The accumulation of grants distributed does slow down as we approach the end of the curve. For instance, a proportion of 90% (90.151%) of total distribution is reached after 53 of 109 foundations. Virén (2014) states, that this kind of distribution model may not be the most efficient as there are many small distributions in comparison with the other end. He continues that it might be (at least in terms of economic efficiency) better to centralize the distributions through larger funds instead of many small ones. Whatever the answer is, we can see that even among the large grant-making foundations the skewness of distributions is apparent.

Figure 2. Accumulated illustration of grants during year 2012 (n=109)



The majority of foundations (69 of 109) in the sample do compensate the board work at least in some level. The amount of remuneration does also vary from one foundation to another. The biggest amount of compensation is given to the board members of Aalto-korkeakoulusäätiö (EUR 991 000). The numbers here include the compensation paid to all members and CEOs inside the group. The smallest amount of compensation was paid to members of Silmäsäätiö in 2011 as they received only EUR 120. The average compensation paid to board was around EUR 36 000 during the years, but as the median was EUR 7 000, the differences here again vast. Additionally, 40 foundations from 109 do not pay any compensation to the board. Therefore, being a board member is being considered as a task of honor and does furtherly receive support from prior literature of different motivating factors of members in non-profit organizations (Goulet & Frank 2009).

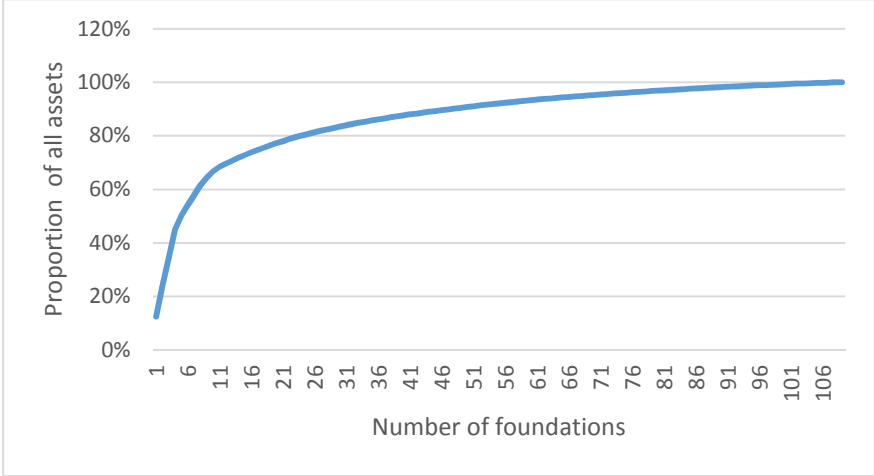
Secondly, as also mentioned by Ahdekivi (2014a; 2016) and Virén (2014), the illustrations of foundations' wealth and financial positions are very skew. If we continue and take a look at the revenues, the smallest amount of revenues (EUR 40 000) was collected by Padasjoen Säästöpankkisäätiö during year 2010. In the following year it had also the lowest amount of revenues (EUR 75 000) which is,

however, almost 88% percent more than in the previous year. As a comparison, the largest amount revenues are gathered by Aalto-korkeakoulusäätiö both in 2010 (EUR 410 299 289) and 2011 (EUR 441 230 000). In general, the variation between foundations’ revenues were also high as the median here is EUR 2 587 000 and the average is EUR 11 169 000. If we look at how the foundations’ revenues build up (Table 4), we can see that more than 40% of foundations’ revenues come from investment activities. General support covers only around 20% of the revenues and the number of foundations receiving the support is limited as only a handful of foundations in the sample receive it. The majority of this support was aimed at Aalto-korkeakoulusäätiö as it received EUR 240-270 millions of support in both of the years.

The differences in size are also reflected on the balance sheet. The smallest foundation in asset size (market value and historical value) is the foundation of “Mary och Georg C. Ehrnrooth” with an amount of EUR 4 346 000 in 2010. In comparison, the largest foundation has assets almost worth of EUR 1 400 000 000 (SLS group). In historical values, the largest foundation is then Aalto-korkeakoulusäätiö with assets of EUR 1 281 188 000, but as it is one of the youngest foundations (founded in 2008), the historical values of assets do not necessarily have the effect of inflation that can be observed from older foundations (as observed in the USA by Frumkin & Keating 2001). For instance, the foundation of “Louise och Göran Ehrnrooth” was founded in 1991, which was the time of recession in Finland. The stock price indices have risen to be around eight times more than the index value in the 1990s. According to Ahdekivi (2014a), the majority of foundations have their investments in Finnish companies. Thus, the effect of economic upcycle in Finland has been notable and it has also reflected to the values of foundations’ investments.

In order to illustrate the skewness of wealth in the sample I have illustrated the accumulative amount of assets from year 2011 in Figure 3:

Figure 3. Accumulated market values of the sample in the end of year 2011 (n=109)



As we can see from the figure, the five largest foundations comprise over half (50.262%) of all the assets recorded in market values (2011). As this figure represents the 109 largest grant-making foundations in Finland, the wealth truly is in hands of a quite small group of foundations. This figure also emphasizes the importance to scale the values in order to improve the reliability of the study. Furtherly, the skewness of wealth is even bigger if the sample is extended. Ahdekivi (2016) found in the sample of 891 foundations that 100 biggest foundations control around 87% of all the wealth (numbers from 2012 assets values). As we can see, the trend is parallel, but not as strong in my sample.

The cash balances of foundations are also heavily different. Three of sample's foundations do not have any cash registered in their balance sheet and the median of cash amount is around EUR 452 000 while the average amount is EUR 3 369 000. Aalto-korkeakoulusäätiö has the largest amount of cash in its balance sheet (EUR 267 789 000 in the beginning of 2012 and EUR 166 979 859 in the beginning of 2011) while the second largest amount after Aalto-korkeakoulusäätiö is Föreningen Konstsamfundet r.f. with EUR 32 338 858 on its balance sheet. As Aalto-korkeakoulusäätiö was founded in 2008, the vast amount of cash resources is at least partly derived from general support the foundation has received during the previous years. It is good to remember when considering the amount of cash that it is also related to the whole quantity of foundations' assets. Having a large or small amount of cash in balance sheet is not an axiomatic issue. Foundations need liquid assets as well, cash for example, to finance their activities and expenses. Then again, having an excess amount of cash is not as productive as having it in long-term investments (Eppen & Fama 1969), especially in these circumstances of low interest rates (Bams et al. 2016).

If we look at the missions of the foundations (see Table 3), we find that almost a half of foundations (48.62%) have listed education as their primary mission. The second largest mission industry category (hereinafter referred as "industry"⁷) is culture with a proportion of one-fifth (20.18%) of the sample's foundations. In line with e.g. Ahdekivi (2016), the first two categories are the largest which is the case also many other countries. Religious missions (industry 10) are not very large in Finland; this is mainly because many European countries such as Finland have a defined state religion. In the USA, for example, the religious entities are much larger part of charitable giving (Blackwood et al. 2012).

As we remember from Table 4 and Figure 2, the differences in these statistics are notable. Therefore, the scaling of our models helps to smoothen the skewness of our sample and also to avoid the possibility of heteroscedasticity (e.g. Hair et al. 2010) and smoothen significant variance in the error terms of our study as there are indeed huge differences in sizes of foundations.

⁷ Term adopted from corporate world, referring to "the field of activity the non-profit primarily operates" (Ahdekivi 2016)

These foundations represent together EUR 10-11 billion of assets while the total asset value of all Finnish foundations has been estimated to be around EUR 20 billion (Ahdekivi 2014a). Thus, our sample represent more than half of the all assets in this field. Moreover, the majority of grants does also heavily depend on these foundations. Virén (2014) states, that the total amount of grants is around EUR 300 million and the total amount grants distributed by our sample is between EUR 230-240 million. Hence, these foundations distribute around 80% of all grants distributed in Finland by foundations. Therefore, the financial importance of these foundations is notable. It covers the majority of grants and assets in the grant-making foundation field in Finland.

Table 6. Annual changes of variables in EUR, 2010-2011

Variable	2010	2011	Difference, %
grants	247 227 033	235 077 904	-4.914
fees	3 718 615	4 087 076	9.909
assets (historical value)	7 954 700 075	7 948 540 538	-0.077
assets (market value)	11 467 910 590	10 631 696 408	-7.292
cash	283 465 624	452 538 755	59.645
revenues	1 285 935 159	1 172 533 747	-8.819
general support	252 354 732	277 355 629	9.907

As we can see from Table 6, the absolute value of grants decreased by around 5% during 2010 and 2011. The amount of fees increased almost 10% during the period, but the increase in fees of Aalto-korkeakoulusäätiö covers almost half of the increased amount. Twenty of the 109 (18.349%) foundations decreased the amount fees during the period, thus the remainder of foundations either kept the fees stable or increased them. Moreover, the market values of assets (-7.292%) and revenues (-8.819%) decreased. The aforementioned (chapter 2) decline in stock market (Nasdaq OMX Nordic 2016) can at least partly behind this incline as Finnish foundations tend to have shares in listed in the Nasdaq OMX Helsinki (Ahdekivi 2014a). However, our data does not provide us a longer perspective to the time series. It seems though, that distributions were affected by the fluctuation of asset values and revenues, but the effect was not fully reflected to the amount of grants. Additionally, the general support increased, but the majority of this support was aimed at Aalto-korkeakoulusäätiö. This did also cause almost 60% of the increase in cash between the years. Otherwise, the increase in cash was not that significant among foundations.

6.2 CORRELATIONS

Before going to the correlations in more detail, I will first go through some staple knowledge regarding the correlation coefficients and their features. Subsequently, the correlations of the determinants will be presented and some observations about the possible statistical problems will be discussed.

Firstly, the correlation between two variables is the linear relationship between them. There are several measures for correlation but the two most common ones are Pearson's product-moment correlation and Spearman's rho. Spearman's rho is a non-parametric version of Pearson's product-moment correlation. The sign (+ or -) indicates the direction of the relationship. Both correlation coefficients range from +1 to -1, where +1 is a perfect positive linear correlation and -1 indicates perfect negative correlation between the two variables. If the coefficient is zero, it indicates that there is no relationship (Hair et al. 2010.)

Both of these aforementioned correlation measures have been included in the Table 3 below. First, I will go through the Pearson's correlations and then continue with the most significantly correlated variables. Second, I will present the coefficients of the Spearman rank correlation and discuss then the most significantly correlated variables. Finally, I will conclude this section by analyzing the possible statistical problems of the model.

Table 7. Correlations for Model 1

		Pearson's correlation						
		distribution	compensation	BTM	logMVA	cash	revenues	general support
Spearman correlation	distribution		0.122	-0.216**	0.833**	0.300**	0.779**	0.282**
	compensation	0.209**		-0.120	0.149*	0.098	0.084	-0.031
	BTM	-0.223**	0.76		-0.330**	0.025	-0.195	-0.008
	logMVA	0.829**	0.228**	-0.321**		0.281**	0.851**	0.459**
	cash	0.343**	0.119	0.012	0.393**		0.327**	0.058
	revenues	0.740**	0.177**	-0.196**	0.839**	0.407**		0.431**
	general support	0.236**	-0.027	-0.064	0.270**	0.091	0.251**	

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

In the Pearson's correlations we can see that the dependent variable (distribution) correlates significantly with book-to-market ratio (BTM), market value of assets (logMVA), amount of cash (cash), revenues (revenues) and general support (general support). All these variables are significant at 0.01 level (2-

tailed). Regarding the correlations of independent variables and distribution, none of these variables is significantly correlated at 0.05 level (2-tailed), thus, the values are either more (p-value closer to zero) or less significant (p-value closer to one). On the contrary, distributions and compensation do not significantly correlate with each other at 0.01 or 0.05 levels (both 2-tailed).

The Spearman's rank correlation coefficient shows us that the dependent variable (distribution) correlates with all the dependent variables on very significant (0.01) level (2-tailed). The correlations seem to be relatively well in line between these two measures except for compensation, cash and general support that has more than 10% difference between the correlations (with respect to distribution). The largest difference (with respect to distribution) is with compensation, where the Pearson's coefficient is around 60% of the corresponding Spearman coefficient. Between all the variables, the greatest difference between the measures is between BTM and compensation, where the Pearson's correlation is eight times lower than the corresponding Spearman value. In absolute values, the greatest difference is between compensation and BTM, where the correlation values are -0.120 (Pearson) and 0.76 (Spearman).

Correlations having the opposite signs can occur, if there are outliers in the data and the variation between them is great. An example of this is the already aforementioned correlation between compensation and BTM, where the Pearson correlation is negative and the Spearman correlation is positive. Additionally, as we remember from Table 5, there are many foundations that did not pay fees to the board, but the maximum value of fees were EUR 991 000. Even after scaling, the differences can be drastic and this reflects to the results of different correlation measures.

The greatest correlations with a highly significant correlation (Pearson) at 0.01 level (2-tailed) are between market value of assets (logMVA) and revenues (0.851). The second greatest correlation is between distribution and market value of assets (logMVA) (0.833) and the third largest is between distribution and revenues (0.779). For Spearman correlations, the greatest correlation at the 0.01 level (2-tailed) is between revenues and market value of assets (logMVA) (0.839). The second largest correlation is between market value of assets (logMVA) and distributions (0.829) and third largest between revenues and distribution (0.740).

Based on both of these correlations, there is a positive association between market value of assets and distribution. This relationship is also statistically significant and is shown in both correlation measures. Interestingly, the book-to-market ratio correlates negatively with distribution. Thus, if the historical and market values of assets are closer to each other, the distributions do, in proportion, decrease. Before we make any further implications regarding the association, the causality of this correlation should be

calculated as well. The compensation paid to the board does not affect the distributions heavily and is not statistically significant in the Pearson's correlation as well.

As the correlations between distributions and market value of assets, distributions and revenues and market value of assets and revenues are high (0.8 or more), there is a possibility for multicollinearity. The multicollinearity means, that the variables have a strong correlation between them and this can cause problems for the accuracy and reliability of the OLS regression analysis. These problems may arise if multiple variables are used in the model (Hair et al. 2010.) Thus, I will conduct a separate multicollinearity analysis and present it in the next section alongside the regression.

6.3 REGRESSION RESULTS

In this section, I will go through the results for the model. Additionally, in order to clarify the high correlation between independent variables, I also conducted multicollinearity tests. Sensitivity test is carried out as our second model and multicollinearity tests are conducted for this model as well. I will present the results of the multicollinearity analysis and additional model the next section.

6.3.1 Results for Payout Model 1

Table 8. Results of the payout model

Variable	Prediction	Model 1	t-test value	Collinearity statistics	
				Tolerance	VIF
compensation	-	-0.001	-0.123	0.953	1.049
BTM	+	0.425	1.572	0.827	1.209
logMVA	+	0.742***	9.426	0.228	4.378
cash	?	0.015	0.761	0.867	1.154
revenues	+	0.228***	3.517	0.258	3.881
general support	+	-0.057***	-3.618	0.747	1.339
Constant		-3.098***	-3.387		
R ²		0.731			
Adjusted R ²		0.724			
Observations		218			

Table 8 reports the parameter estimates for ordinary least squares regressions. Significantly different from zero in a two-tailed test at the *10%, **5%, ***1% level.

The results for the payout model using Ordinary Least Squares regression can be seen in the Table 8. As can be observed from the table, three (market value of assets (logMVA), revenues and general support) of six independent variables are statistically significant at the highest level of significance ($p < 0.001$ [***]). The other three independent variables are not significant even at lower ($p < 0.05$ [**] and $p < 0.1$ [*]) levels of significance. The explanatory power is quite high as r-square value is 0.731 (adjusted r-square 0.724) indicating us that 73.1% of the variation in the payout values can be explained by the variation in the independent variables. Additionally, the F-statistic describing the statistical significance of the model as a whole was 95.746 (p-value 0.000 [***]), which indicates us that the model itself is, at least in these terms, plausible. The coefficient of the intercept (the constant of the model) is -3.098 (t-value of -3.387) and is statistically significant at the 0.01 level. The coefficient on intercept implies that the average grant is EUR 0.045 when the intercept value is converted to an actual value in euro when all the coefficient variables have the value of zero.

As I scaled both the outcome and the independent variable with natural logarithm, the interpretation of the results differs from the case of straight linear model (Benoit 2011). Hence, an increase of 1% in one of the dependent variable would result in an increase (decrease) of certain percentage in distributions. The coefficient of the natural logarithm of the dependent variable is referred also to elasticity (Benoit 2011).

The compensation of the board does seem to have slightly negative effect to the distribution (-0.001) but this result is not significant. This result is broadly in line with prior results (Clotfelter 1992, 217; Sansing & Yetman 2002). Then again, Boris et al. (2008) state, that the board members are motivated by other means than money. Additionally, many do not get compensation at all. On the contrary, in a study by Renz (2012b), compensation was the biggest component of expenses. If we take look on our data, the median of fees was EUR 7 000 (Table 5). In other words, the median of absolute values were quite small in comparison with the amount of distributions. Aside this, the compensation is also evaluated by the auditor and commented in the auditor's report. Therefore, if the compensations were alarmingly high and the auditor would leave these unnoticed, the auditor would also face the consequences of giving misleading information about the financial state of the foundation. This also controls the amount of compensation paid to the board. As the result is not statistically significant, we cannot say that that the causality of correlation here is confirmed.

Book-to-market ratio does have positive effect (0.425) to the distribution, meaning that a one percent increase in the ratio would indicate around 0.425% increase in grants. This result, however, is not statistically significant. As significance for this coefficient was only 0.118 it is not significant even at 10% level that one would address to be less conservative significance and an easier way to find significances from the sample (Hair et al. 2010). The direction of effect is in line with the reasoning

from literature (Steuerle 1999; Fisman & Hubbard 2003), but as these results are not statistically significant, we cannot draw a conclusion for or against this claim. Thus, we cannot make a statement whether the distributions of Finnish foundations are significantly associated with the book-to-market ratio.

As our third independent variable, we have the market value of assets (logMVA). The coefficient here is 0.742, meaning that an increase of one percent in the market value of assets results in around 0.742% increase in the amount of distributed grants. The coefficient here is very strong and it is significant at the $p < 0.01$ level, too. This finding is partially inconsistent with the findings that smaller and mid-sized foundations would have relatively higher payouts than large foundations (Salamon 1991; Mehrling 1999). We must however, consider, that the payouts are calculated in other models (usually grants to assets) as the payout in my study was calculated as the natural logarithm of grants distributed. The outcome of the association of these variables is that if the asset size of foundations increase, so does the amount of distribution. Therefore, the claim that large foundations would hoard income and not increase their distribution does not in this case hold (=theory of pyramid builders, Sansing & Yetman 2002). The effect, however, was quite strong, thus the possibility multicollinearity is plausible. Additional test for detecting multicollinearity will be conducted in subsequent sections.

The amount of cash was the next independent variable used in the model to control the payout of foundations. The coefficient here is quite close to zero, indicating that there is no relationship (Hair et al. 2010). The statistical significance is also quite low, ($p < 0.15$), thus, we cannot make any conclusive implications about the effect of cash in the regression model.

Revenues do seem to have positive coefficient (0.228) with the amount distributed. On the contrary, we can observe that the correlation here appears to be very strong and it also fulfills the very demanding condition of a p -value < 0.01 . Based on the coefficient, if a foundation experiences an increase of 1% on its revenues, the grants would go up by 0.228%. From this we can furtherly imply that increase in revenues does not seem to have a very strong connection to the amount of grants distributed. Furtherly, if revenues grow, so do usually the costs as well. By comparing the ratio between revenues and costs, we could see how the earnings would affect the distribution. In our sample, the fluctuation of revenues and costs was so vast that the results would have not given us the sufficient field to play in.

The association of general support and grants is the last independent variable used in the model. The assumption was that the amount of general support would be positively associated with the amount of grants. The result was quite the contrary as it seems that an increase of 1% in general support would actually imply a decrease of over 0.057% in the amount of grants. As the effect here is very close to zero, it does give an implication that received general support does not affect the amount of grants almost

in any level. The finding is statistically significant at the $p < 0.01$ level. Generally speaking, the general support received from the government can be quite versatile as the support can be for e.g. a certain project or other specified use or it may not a particular use at the moment. In the case of Aalto-korkeakoulusäätiö, the funding of a university was changed in a remarkable way (Virén 2014) as the foundation was established. They have received a large amount of donations annually in order to establish and build up the foundation.

The implications for payout theories do not receive substantial support. Although these theories may exist in the background of payout policy, the applicability of these theories to empirical results cannot be confirmed. Legislation for payout, for instance, can have influence on the payout, but as Finnish foundations do not face explicit regulations regarding tax benefits and amount of distribution, the theories. These theories, however, can exist in the background of payout policy decisions, thus they should not be completely discarded.

As a conclusion of this model we can state that three of six variables (logMVA, revenues and general support) were significant predictor variables for distributions of foundations. As stated in previous section, high correlations should be examined as the possibility of multicollinearity is present. In the next section I will present some statistics regarding the multicollinearity and analyze those results.

6.3.2 Multicollinearity

Hair et al. (2010) state that a correlation of over 0.8 can create a threat to the reliability of the test results of OLS regression. It may occur if one single independent variable is highly correlated with a set of other independent variables. As an extreme case of multicollinearity we could observe *singularity*, in which an independent variable would be perfectly correlated by one or more independent variables. Thus, we examine the regression statistically and observe if the *variance inflation factors* (VIF) indicate us about the existence of multicollinearity. The VIF-values are illustrated in the Table 8 under the title of collinearity statistics. Additionally, I have highlighted the two highest VIF-values in the table.

The tolerance levels in Table 8 tell us that the smaller values are more highly predicted by the other independent variables, i.e. there can be multicollinearity (Hair et al. 2010.) From the tolerance level we can derive the VIF values (VIF is reciprocal of tolerance). There are different opinions regarding the thresholds for VIF values. According to the literature, values ranging from five to ten can be problematic, although a VIF value of ten is already alarming (O'Brien 2007; Hair et al. 2010). However, as the results in Table 8 show, our VIF values fall under the range of 5-10, thus the danger of multicollinearity is not present.

6.3.3 Sensitivity analysis

In order to observe if there are differences between the mission industry categories, we conduct a sensitivity analysis where I will conduct regression analyses for the categories. Core et al. (2006) and Dudley et al. (2015) observed that there are differences among mission industry categories, thus controlling the category is important. The model complies with the first model except that the regression model will be conducted separately for different foundation types.

As we can observe from Table 3, the frequencies of different mission industry categories (= industries) in the sample appear to be very skew. Almost 70% of the sample's foundations have listed culture and recreation or education and research as their main purpose. Thus, I divide the foundations' types into three sub-categories: culture, education and other in order to achieve results that are more reliable. The latter category includes all other industries of the sample. Otherwise, most of the industries would have only couple of foundations per industry. This could cause great deviations in the study and furtherly result in large p-values. Hence, it could well flaw the reliability of the data, too. After categorizing the foundations to three categories, the category-wise frequencies are following:

Table 9. The mission classification (ICNPO) of foundations in the sensitivity analysis

ICNPO-class description	ICNPO - class	Number of foundations	Share of total, %
Culture and recreation	1	22	20.183
Education and research	2	53	48.624
Other	3 - 12	34	31.193
Total		109	100.00

As we can see from Table 9, the frequencies are now smoother as the small frequencies are summed under the category of "other". As a result of this, the results of the model are more reliable. In the next section, I will present and go through the results from the OLS regression regarding the sensitivity analysis for the sample.

6.3.4 Results for the sensitivity analysis regression

Table 10. Results for the sensitivity analysis regression

Variable	culture		education		other	
	coefficient	t-test value	coefficient	t-test value	coefficient	t-test value
compensation	-0.016	-0.688	-0.021	-1.693	-0.001	-0.059
BMR	0.303	0.356	0.470	1.216	0.185	0.575
logMVA	0.947***	3.715	1.323***	10.930	0.402***	3.983
cash	-0.009	-0.218	-0.042	-1.242	-0.029	-0.861
revenues	0.031	0.139	-0.230**	-2.479	0.631***	8.574
general support	-0.213	-3.919	-0.034*	-1.751	-0.040	-1.505
Constant	-3.219	-1.268	-5.554***	-4.027	-2.453*	-1.778
R ²	0.818		0.758		0.847	
Adjusted R ²	0.789		0.743		0.832	
Observations	44		106		68	

Table 10 reports the parameter estimates for ordinary least squares regressions. Significantly different from zero in a two-tailed test at the *10%, **5%, ***1% level.

Table 10 presents us the regression results for three industry categories. Although I have compiled the industries into three larger groups, we must also bear in mind that the sample size is still quite small. O'Brien (2007) states that in small sample sizes the p-value appear to grow in comparison with large samples. Therefore, we must take caution when generalizing these results.

The variable compensation is slightly negative throughout the three industries. This is in line with the prediction and the results from Model 1. The results, however, are not statistically significant in any of our categories. Therefore, we cannot draw any further implications from these results as we lack statistical significance. The same applies to the book-to-market ratio (BTM), where the sign of coefficient is the same as in Model 1, but the statistical significance is lacking also from this result. Thus, no further implication can be drawn from here as well.

The direction of coefficients are in line with the prediction and results for Model 1, but the coefficients for education and other differ from the results of the first model. As we can see from Table 10, the

coefficient for education is 1.323 (significant at $p < 0.01$ level) and for other it is 0.402 (significant at $p < 0.01$ level). Thus, an increase of 1% in assets would result in an increase of distribution by over a 1.3% for education mission industry, while the increase would be only 0.402% in other mission industry. For culture mission industry, an increase of 1% would result in an increase of almost 0.95%. The difference here is more than three times in favor for education in comparison with the other category, making it very notable. The result for culture mission industry is in line with the Model 1. As an implication of these results we can say, that the growth of assets would result the highest increase in payout in education mission industry.

The results for cash were also quite in line with the results of Model 1, although the signs of coefficients are now negative. None of these results are not statistically significant, thus no further implications can be made based upon these results. No prediction was provided for the effect of cash in the regression model.

For revenues, the results vary from each other. The correlation is positive in the group of culture industry (0.031), negative in education (-0.230) and again positive in the group others (0.631). As the coefficient from Model 1 is positive (0.228), the group education differs from this. The coefficients are significant in education and others, but not in culture. Thus, implications can be drawn only from the two significant results. An increase of 1% to the revenue will increase the distributions of education industry by 0.228% and the other industry by 0.631%, respectively. The impact here is around 2.7 times larger in the other industry in comparison with the education industry.

Again, as our last independent variable I will present the results from the effect of general support to distributions. The sign in all three coefficients is negative, which was the case also in Model 1. This was, however, against my prediction that the coefficient would be positive. Two of these coefficients were statistically significant: culture (-0.213) at $p < 0.01$ level and education (-0.034) at $p < 0.100$ level. The implication here is that general support does have a slightly negative effect on distributed grants in the aforementioned industries. As a note, a vast majority of foundation (206 of 218) did not receive any grants during the years.

Based on the results of the Model 1 and the sensitivity analysis, we cannot conclude that our hypothesis for the study is either correct or incorrect. Although the coefficient was positive, the significance levels of our results do not give us statistic background to comprehensively confirm or reject the hypothesis that I presented in the section 5.

7 CONCLUSIONS, LIMITATIONS

In this section, I will first summarize the conclusions that can be derived from the key findings of the study. Secondly, a brief outlook on the study as a whole and present the limitations of the study will be provided. Finally, I will present few opportunities and ideas for future research that have stemmed during the current research process.

7.1 CONCLUSIONS

In this study, I examined the relationship between payout policy and the choice of financial reporting approach in the largest grant-making foundations in Finland. The effect of financial reporting approach was examined as the book-to-market ratio derived from the financial statements of the foundations. The amount of payout was determined as the scaled amount of distributions. The sample consists of 109 foundations and two consecutive fiscal years (2010 and 2011) for balance sheet items and grants (2011 and 2012). In the results, it was found that the book-to-market ratio does not have statistically significant association with annual payout of foundations. It can be argued that foundations do not make their decisions based on these financial numbers, but the hypothesis is neither confirmed nor rejected as the explanation and findings lacks statistical significance. Thus, no comprehensive explanation cannot be provided using book-to-market ratio as an explanatory variable predicting the payout.

Scaled market value of assets and revenues have a significant association with the payout. In absolute value, this would be expected, but as we scaled the variables we may say that an increase in both asset values and revenues are positively correlated with the annual payout. Large foundations can have also operational activities alongside the grant-making activities, but in general, the amount of assets reflects to the amount of paid grants. The same applies with revenues, as the statistically positive significance is also strong between revenues and payout. This cannot be said about general support foundations receive. Larger grant-making foundations do not tend to receive general support as the majority of income is derived from income from investment activities. The association between general support and payout was statistically significant, but the coefficient in the model was close to zero. Thus, the amount of general support does not have almost any effect on the annual payout of foundations. This is in line with prior observations, as larger foundations tend to be more independent from governmental and private support.

The amount of cash did not have a significant association with the payout. Although the mandatory and urgent fiscal obligations need cash, the additional payout was not affected by the amount of cash on the balance sheet. Foundations are not also obliged to pay these grants immediately, thus they can also

forecast their cash flows and optimize the cash balance in order to minimize the holding costs of cash on bank accounts.

Theories behind payout policy for Finnish foundations are due to e.g. differences in legislation very challenging to confirm using the results of our model regarding financial reporting approach. For instance, the dilemma between current and future spending is existent in the payout policies of foundations. This theory could not, however be tested in this study due to limited amount of data. Nevertheless, these theories offer a general background to which the empirical results can be compared.

Additional analysis shows us that differences in mission industries of foundations affect the determinants of annual payouts. Foundations in the education and research branch have stronger association between market value of assets and annual payout than culture and research and the other industries. These findings were also significant; thus, we can state that in the educational industry the association between market values of assets and payout is stronger than the latter two mission industries. In the mission industry of the remainder of ICNPO categories, the association between revenues and payout was more significant and the coefficient was bigger than in the other industries. In the mission industry of culture and recreation, this association was not significant. Hence, there are indeed differences between the foundations in different mission industries.

7.2 LIMITATIONS OF THE STUDY

There are few limitations regarding the study. Firstly, the analyzed data consists only of 109 largest Finnish foundations during fiscal years 2010-2011. Having a timespan of only two years does not provide as detailed analyses conducted e.g. for listed companies in the U.S., but the aim of my study here is to provide contribution for further research, and partially act as motivator for the demand of having more detailed information for the third sector as well.

Secondly, there are limitations in the data set itself regarding the foundations in Finland. As there is around 2850 foundations in Finland alone, but the study does provide information only from 109, data is missing from having a holistic view of the foundations as a whole. Here we must once again acknowledge the fact that there is no common and open database for Finnish foundations to provide their annual reports, and that the 109 biggest foundations in Finland do represent the majority of assets and financial wealth in Finland. The need for more detailed and open source of data have both been stated by Manninen (2005), Virén (2014) Ahdekivi (2014a), making it one of the known limitations of these studies. There is, however, a need for further research, as the field of non-profit sector is notable in size, having role as an employer, investor and actor for public good. The growth prospects for foundations show that the importance of foundations is not at least diminishing in our society.

7.3 IDEAS FOR FURTHER RESEARCH

As stated in the previous chapter, the limitations of current data place ideas for future research. Firstly, having a larger sample set of foundations would increase the accuracy of analysis. Although the monetary impact of foundations is skewed so that a small proportion of foundations (109 of more than 2800) represent the majority of assets, having the long tail of small foundations could have some impact on the results of the model used in the research.

Secondly, having a longer time series of more than three years could help to explain more the causal relationships recognized by our model and find patterns in the payout policies of foundations. As stated in the first chapter of the research, the databases such as Orbis⁸ for e.g. Finnish companies provides a vast amount of data collected and revised on a regular basis, and is also distributed in an easy-to-refine formats. The need for more transparent information about foundations has been recognized at the national level as well e.g. by the Finnish Competition and Consumer Authority. Their statement regarding competition neutrality between for-profits and non-profits in the proposition for new municipal law (Finnish Competition and Consumer Authority 2010).

Thirdly, even finding a common definition for foundations in the global perspective does contain some problematics but the legal treatment for different associations and foundations would have also made the research even more complex and cumbersome. In order to have a holistic view, more international and overlapping research would also be important. Additionally, the nature of foundations is also experiencing changes as the surrounding society changes as well e.g. through global networking (Virén 2014). It is therefore vital to provide research to notice and explain the changes in the ecosystem.

Finally, referring to Toepler (2004) and Deep & Frumkin (2001), the focus of research should be more on studying the mechanism instead of the mechanics. It is certain the importance and role of the third sector is by no means diminishing in our society, but quite the contrary.

⁸ The Orbis database produced by Bureau van Dijk has information of over 200 million companies worldwide and around 80 million companies.

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8.1.2 Finnish statute collection

Business Income Taxation Act (360/1968), Elinkeinoverolaki.

Finnish Foundation Act (487/2015), Säätiölaki

Finnish Foundation Act (109/1930), Säätiölaki (repealed)

Finnish GAAP (1339/1997), Kirjanpitoasetus

General Corporation Law (624/2006), Osakeyhtiölaki.

Income Taxation Act (1535/1992), Tuloverolaki.

Law on tax exemption on non-profit corporations (680/1976), Laki eräiden yleishyödyllisten yhteisöjen veronhuojennuksista. Finnish Accountancy Board (2004). Decision number 1725/24.2.2004, KILA.

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9 APPENDICES

Appendix A: Excerpts from the 2011 financial statements of Jenny and Antti Wihurin rahasto

Excerpt 1. Income statement of Jenny ja Antti Wihurin rahasto (FY 2010-2011)

Jenny ja Antti Wihurin rahasto	Tuloslaskelma	13	
		1.1.2011	1.1.2010
		31.12.2011	31.12.2010
VARSINAINEN TOIMINTA			
Jaetut apurahat	-9 700 000,00	-9 700 000,00	
Katetaan käyttörahastosta	9 700 000,00	9 700 000,00	
Kulut			
Henkilöstökulut	-450 701,61	-437 284,75	
Poistot	-21 336,42	-25 919,24	
Muut kulut	-224 453,87	-242 317,10	
Kulut yhteensä	-696 491,90	-705 521,09	
VARSINAINEN TOIMINTA	-696 491,90	-705 521,09	
KULUJÄÄMÄ	-696 491,90	-705 521,09	
SIJOITUSTOIMINTA			
Korkotuotot	2 400 452,58	2 011 108,37	
Sijoitusrahastojen voitto-osuudet	534 348,21	622 039,01	
Osingot	9 613 579,23	8 209 177,62	
Kiinteistöjen tuotto			
Vuokratuotot	361 218,24	334 909,48	
Hoitokulut	-466 611,22	-586 061,01	
Kiinteistöjen tuotto	-105 392,98	-251 151,53	
Kiinteistöosakkeiden tuotto			
Vuokratuotot	6 629 132,49	6 090 018,70	
Muut tuotot	111 015,02	101 977,91	
Hoitokulut	-2 266 630,08	-1 997 793,90	
Kiinteistöosakkeiden tuotto	4 473 517,43	4 194 202,71	
Tuotot yhteensä	16 916 504,47	14 785 376,18	
Poistot	-78 855,36	-85 606,61	
Muut tuotot	914 881,35	12 247 572,49	
Siirto peruspääomaan	-433 911,30	-12 149 812,49	
Muut kulut	-6 593 537,95	-405 126,55	
Katetaan peruspääomasta	6 492 438,55	308 966,25	
SIJOITUSTOIMINTA YHTEENSÄ	17 217 519,76	14 701 369,27	
TUOTTOJÄÄMÄ	16 521 027,86	13 995 848,18	
VÄLITTÖMÄT VEROT			
Tilikaudelta	-6 328,32	-2 773,20	
Edellisiltä tilikausilta	2 773,20	-915,36	
Välittömät verot yhteensä	-3 555,12	-3 688,56	
TILIKAUDEN YLIJÄÄMÄ	16 517 472,74	13 992 159,62	

Excerpt 2. Balance sheet of Jenny ja Antti Wihurin rahasto (FY 2010-2011)

Jenny ja Antti Wihurin rahasto	Tase	14
	31.12.2011	31.12.2010
VASTAAVA		
PYSYVÄT VASTAAVAT		
Aineettomat hyödykkeet		
Muut Pitkävaikutteiset menot	4 210,84	6 588,44
Aineettomat hyödykkeet yhteensä	4 210,84	6 588,44
Aineelliset hyödykkeet		
Koneet ja kalusto	90 943,97	116 048,22
Aineelliset hyödykkeet yhteensä	90 943,97	116 048,22
Muut pitkäaikaiset sijoitukset		
Maa-alueet		
Arkadiankatu 21	162 301,35	162 301,35
Kallioliinantie 4	79 721,08	79 721,08
Maa-alueet yhteensä	242 022,43	242 022,43
Rakennukset		
Arkadiankatu 21	892 354,28	929 512,53
Kallioliinantie 4	723 719,25	754 060,52
Rakennukset yhteensä	1 616 073,53	1 683 573,05
Osakkeet ja osuudet		
Noteeratut osakkeet	41 880 958,29	45 311 856,92
Muut osakkeet	1 691 201,30	1 691 201,30
Osakerahastot	28 197 085,37	29 229 365,61
Pääomasijoitusrahastot	7 876 857,25	6 758 237,20
Muut rahastot	3 179 436,13	2 904 777,13
Yrityslainarahastot	9 128 328,89	8 848 014,96
Kiinteistöosakkeet	62 108 654,94	62 340 726,70
Osakkeet ja osuudet yhteensä	154 062 522,17	157 084 179,82
Joukkolainat	31 003 197,49	30 947 009,58
Pääomalainasaamiset	5 823 737,44	5 823 737,44
Muut pitkäaikaiset sijoitukset	192 747 553,06	195 780 522,32
PYSYVÄT VASTAAVAT YHTEENSÄ	192 842 707,87	195 903 158,98
VAIHTUVAT VASTAAVAT		
Saamiset		
Siirtosaamiset		
Vuokrasaamiset	61 389,33	61 940,18
Korkosaamiset	744 715,89	742 088,09
Muut siirtosaamiset	79 308,35	65 080,75
Siirtosaamiset yhteensä	885 413,57	869 109,02
Saamiset yhteensä	885 413,57	869 109,02

Rahoitusarvopaperit	16 901 497,50	11 811 695,43
Rahat ja pankkisamiset	557 747,24	516 931,52
VAIHTUVAT VASTAAVAT	18 344 658,31	13 197 735,97
VASTAAVAA YHTEENSÄ	211 187 366,18	209 100 894,95
VASTATTAVAA		
OMA PÄÄOMA		
Lahjoitusrahastot		
FT Hanna Lappalaisen rahasto	1 009 127,56	1 009 127,56
Ida ja Maria Rytkösen rahasto	1 261 409,45	1 261 409,45
VT Oskari Kaupin rahasto	168 187,93	168 187,93
Kauppaneuvos Rakel Wihurin rahasto	1 681 879,26	1 681 879,26
Lahjoitusrahastot yhteensä	4 120 604,20	4 120 604,20
Peruspääoma		
Peruspääoma 1.1.2010	172 414 055,02	157 073 208,78
Siirto edellisen vuoden ylijäämästä	3 800 000,00	3 500 000,00
Arvopapereiden myynti	416 015,84	1 331 984,94
Arvopapereiden arvonalennukset	-6 492 438,55	-308 966,25
Arvopapereiden arvonkorotukset	17 895,46	10 817 827,55
Peruspääoma yhteensä	170 155 527,77	172 414 055,02
Käyttörahaso		
Käyttörahaso 1.1.2010	9 482 448,00	9 801 566,34
Siirto edellisen vuoden ylijäämästä	10 192 159,62	9 380 881,66
Myönnetyt apurahat	-9 700 000,00	-9 700 000,00
Käyttörahaso yhteensä	9 974 607,62	9 482 448,00
Ylijäämä tilikaudelta	16 517 472,74	13 992 159,62
OMA PÄÄOMA YHTEENSÄ	200 768 212,33	200 009 266,84
VIERAS PÄÄOMA		
Lyhytaikainen		
Nostamattomat apurahat	9 930 555,10	8 647 915,25
Ostovelat	103 981,00	82 413,43
Siirtovelat	191 136,03	186 256,06
Muut lyhytaikaiset velat	193 481,72	175 043,37
Lyhytaikaiset velat yhteensä	10 419 153,85	9 091 628,11
VIERAS PÄÄOMA	10 419 153,85	9 091 628,11
VASTATTAVAA YHTEENSÄ	211 187 366,18	209 100 894,95

Excerpt 3. Notes to the financial statements of Jenny ja Antti Wihurin rahasto (FY 2010-2011)

7. Noteeratut osakkeet ja osuudet sekä joukkolainat	Kirjanpitoarvo 31.12.2011	Markkina-arvo 31.12.2011
Noteeratut osakkeet	41 880 958,29	126 108 075,48
Osakerahastot	28 197 085,37	30 855 293,93
Yrityslainarahastot	9 128 328,89	10 176 008,26
Muut rahastot	3 179 436,13	3 893 705,51
Joukkolainat	31 003 197,49	31 862 719,75
	<u>113 389 006,17</u>	<u>202 895 802,93</u>

9. Omistukset muissa yrityksissä (yli 20%)

	Kotipaikka	Omistus- osuus %	Yrityksen oma pääoma
KOY HTC Nina	Helsinki	50,0	25 083 253,66
KOY Helsingin Rautatalo *)	Helsinki	31,5	40 464 268,69
KOY Hämeenlinnan Liikekeskus	Hämeenlinna	67,9	8 810 581,55
KOY Laurea	Vantaa	100,0	921 837,42
KOY Quartetton Cello	Espoo	100,0	14 748 159,50
KOY Turun Asemaseutu	Turku	20,7	15 274 767,47
OY Elimäenkatu 20	Helsinki	48,7	2 070 320,76
Wihuri Oy	Helsinki	22,4	199 437 000,00
Wihurin Teollisuus Hallit O/Y	Helsinki	99,8	4 241 635,12