

Literature review on financial health evaluation and governance of charitable foundations

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Abstract: the Fourth Plenary Session of the 18th CPC Central Committee made it clear that “safeguard the rights and interests of the people according to law, safeguard social fairness and justice”, comprehensively promote the strategy of governing the country according to law, and realize good governance of the country. As an important mechanism for the “third” distribution of social resources, charitable foundations make up for the failure of the government and the market through poverty alleviation, resolve the contradictions between the state and society, and contribute to the harmony and stability of the economy and society. The vigorous advocacy and development of charitable foundations reflect the spirit of the decision of the Fourth Plenary Session of the 18th CPC Central Committee, which is the essential requirement of democracy and the rule of law and the concrete embodiment of fairness and justice. Therefore, the study of the financial health and governance of charitable foundations has certain theoretical and practical significance.

Key words: Charitable Foundation; Governance; Financial health assessment

As a kind of non membership organization in non-profit organizations, foundations differ from Listed Companies in that they do not pursue more profits and higher share prices financially, but pursue financial health that provides strong financial support for the realization of their mission, vision or purpose. Therefore, different from the research on the relationship between corporate governance, profit and stock price in the research of listed company governance, the research on the organizational governance of foundations should focus on the relationship between it and the financial health of foundations, so as to lay the foundation for exploring the organizational governance mechanism that is more conducive to the healthy development of foundations.

Due to the gap in the development level of foundations between the two countries, there is a clear gap in the research of foundation accounting between China and the United States. In this context, this paper focuses on three issues: how about the financial health of charitable foundations? How does the foundation manage? And how about the governance effect? This paper will review and comment on the relevant literature.

The main characteristics of American foundation accounting research literature are the coexistence of normative and empirical research. Diversified research methods have expanded the research field of foundation accounting. As non-profit organizations, foundations are not unable to create profits (in fact, most foundations are creating profits), they are only prohibited from distributing their profits to their owners (Hansmann, 1980). This characteristic means that no one or group has the right to distribute the residual income of the foundation as a non-profit organization. In this way, the foundation has no shareholders and no shareholders' equity (but only net assets). However, “although no shares have been issued, non-profit organizations can enhance their ‘rights’ through donations from donors (gentry, 2002).” Similar to cash and trading financial assets of for-profit enterprises, the amount of donations also includes past donations, past “profits” - the difference between income and expenses, that is, the balance, and other accumulated but non expendable assets. In this way, similar to the shareholders of profit-making enterprises, in the foundation, donors provide “equity capital”, but unlike shareholders, donors have no right to receive capital dividends. Moreover, since the accumulated donations of the foundation are obtained from past and present donors, it is also very difficult for the foundation to return donations. Finally, the tax exemption provisions of the foundation also made the idea of returning donations to donors unpopular.

Although the non-profit foundation has no residual claimants, it does not mean that it has no effective supervisors. Although donors, especially those with large amounts of money, can not share the residual income of the foundation, they still often enjoy some control over the foundation business through some other ways, such as holding seats on the board of directors or the board of directors of the foundation (Fama and Jensen, 1983), or agreeing and inquiring about the whereabouts of their donations, Or affiliated with a foundation to set up a fund, but relatively independently responsible for the operation, financing, investment and other operations of the foundation. This phenomenon means that large donors are an important part of realizing the mission of the foundation more effectively. However, some studies have found that when the leaders of for-profit enterprises join the board of directors of non-profit foundations, they may not be able to effectively contribute their strength due to improper motives, as well as being unfamiliar with and unfit for non-profit organizations (Bowen, 1994). Taylor et al. (1996) believed that the members of the Council must shoulder the new responsibilities of exploring major issues and jointly formulating policies with the decision-making level, and have certain flexibility in structure while shaping the group concept and collective wisdom, rather than playing the role of “rubber stamp”, so that the prospects of the foundation can be guaranteed to a greater extent.

Whether the supervisor is the donor or the Council, the information disclosure of the foundation is essential to better achieve the purpose of supervision. In order to meet the information needs of these supervisors, Herzlinger (1996) outlined a solution she called “disclosure analysis disclosure punishment (DADS)”. Her plan requires non-profit organizations including foundations and government

departments to strengthen the disclosure, analysis and release of information about their own work performance to the public, and punish institutions that do not comply with the above requirements. She also emphasized that the benefits of non-profit organizations, including foundations, can be measured through the disclosure of quantitative non-financial information, which forms the basis of accounting information disclosure of non-profit organizations.

In order to more reasonably distinguish the differences in donations caused by the different nature of each foundation, core et al. (2006) introduced the concept of "excess donation". He believes that the excess donation can be in the following three situations: (1) due to the unique growth opportunity expectation of the foundation, the amount of donation increases satisfactorily; (2) Due to the superior supervision mechanism of the foundation, the amount of donations increased satisfactorily; (3) Due to the unique agency problems of the foundation, the amount of donations increased, but this is not satisfactory.

Compared with the "two pronged approach" of normative research and empirical research of foundation accounting research in the United States, China's foundation accounting research, due to the lack of public accounting data and other reasons, is currently mostly focused on normative research. Some scholars have the courage to innovate and try to use some other research methods.

In terms of foundation governance, most of the previous studies were qualitative and normative studies. The more typical ones, such as Wang Ming and Jia Xijin (2003), analyzed the foundation of property rights from the perspective of the legal positioning of foundations, and concluded that there were four main characteristics of foundation property rights: there was no owner of complete property rights, the separation of residual claim and control in the definition of ownership. The right to use is restricted and there is no free transfer right. Further, by elaborating the public responsibility and governance structure of the foundation, six supervision mechanisms are proposed, including administrative supervision, board supervision, trust inspector, non-governmental evaluation and supervision organizations, the public, and the news media. The legal system environment construction of the foundation is proposed to clarify the legal status of the foundation. We should improve the registration management system of non-profit organizations and tax policies for non-profit organizations, strengthen social supervision mechanism, and establish independent financial and audit systems for non-profit organizations. Since the implementation of the new accounting system in China Foundation in 2005, some research methods of corporate governance have also been applied to the research of foundation organizational governance. For example, Xu Xi and ye Minqiang (2008) concluded through the introduction of game theory analysis that the punishment for the board of directors' dereliction of duty should be increased, and certain implicit reputation incentives should be given to the board of directors and the board of supervisors who are conscientious, It is conducive to the realization of the mixed strategic Nash equilibrium of both sides. For internal staff, we should promote their work efficiency on the one hand; On the other hand, while adopting efficiency pay, we should appropriately improve the explicit incentive and restraint mechanism of performance bonus. Li Li and chenjiefeng (2009) think that the foundation also has a principal-agent relationship by analogy with the corporate governance structure, so it also has a corporate governance structure with its own characteristics, including the Council, the board of supervisors and the executive body. However, the corporate governance structure of China's foundations has some practical defects, such as the "vacancy" of the decision-making function of the Council, the "vacancy" of the board of supervisors, and the "insider" control. The author suggests that we should establish a balanced and effective decision-making mechanism, improve the legal status of the board of supervisors, expand the powers of the board of supervisors, and introduce a common governance mechanism to eliminate the "insider control", To improve the governance structure of Chinese foundations. Yan Kegao (2012) selected 71 public welfare foundations as research samples and used the data of two years to conduct a group regression analysis on the characteristics of the Council and the financial performance of the organization. The results show that expanding the size of the Council can improve the financial performance and financing capacity of public welfare foundations; The older the average age of directors is, the more unfavorable it is to fund raising; Other characteristic variables such as the number of board meetings have no significant impact on organizational financial performance variables. This paper is the only document in China that can be checked at the time of writing this paper that uses empirical accounting research methods in a more standardized way.

The performance evaluation and evaluation of foundations are not accompanied by the emergence of foundations. At the initial stage when its organizational capacity is very weak and its impact on the society is not large, the government has little need to evaluate it because of the complexity, high cost and the nature that it is easy to inhibit the initial development of the evaluation object; In the absence of strong external pressure, the foundation itself has no incentive to evaluate; The vast number of small donors can hardly afford the large amount of funds and expertise required for the assessment. As a result, few people were willing to care about the evaluation of the foundation at that time, and few people were willing to make such an evaluation, which instead provided a very loose and favorable environment for the development of non-profit organizations. At present, the domestic and foreign academic circles have less evaluation methods for foundations than enterprises, mainly including multidimensional service quality evaluation model (proposed by vanhan & Shiu in 2000), get internal operation evaluation model (proposed by Mueller et al in 2004), DEA efficiency evaluation (proposed by Tomkins & green in 1988), effect evaluation (proposed by Segal in 1997), and Balanced Scorecard (proposed by Robert S. Kaplan & David P. Norton in the early 1990s), "Three E" evaluation theory (dengguosheng, 2003), "three D" evaluation theory (dengguosheng, 2003), APC evaluation theory (dengguosheng, 2007), customer satisfaction theory (Wang Ming, liupeifeng, etc., 2004), three-dimensional evaluation system (zhangyuzhou, 2009), etc.

Based on the analysis of the practice and research status of charitable foundations at home and abroad, there are still some important

issues that need further study, mainly as follows: (1) as a form of social organization, charitable foundations are a concrete reflection of social structure and reflect the complex changing relationship between the state and society. Therefore, the study of foundations cannot be separated from the analysis of the social environment and political system on which they depend. The existing literature mainly studies the development process, legal norms and governance mechanism of the foundation from different theories, and lacks the analysis of its specific institutional environment and social structure. (2) The existing research only studies the governance of charitable foundations from the perspective of a single organization, and lacks the synergy between charitable foundations and different social subjects from a diversified perspective, which is difficult to effectively explain the development practice of charitable foundations in China in recent years; (3) Previous studies have proposed the financial information disclosure index system of foundations, but only at the design stage of the index system. Other studies have discussed the governance mechanism of charitable foundations from the aspects of governance concept and governance structure, but focused on the introduction of foundation system norms and the comparative analysis of the operation and management modes of charitable foundations in different countries and regions, Lack of specific operation mode and implementation path; (4) Most of them use normative research to explore the governance of foundations, lacking relevant empirical evidence, which is difficult to meet the needs of the development of theory and practice.

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