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## INSIDE THE COMMUNITY FOUNDATION BOARDROOM: UNDERSTANDING STRATEGIC DECISION-MAKING

*A joint project between Ohio University and BoardSource*  
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*Compiled by:*

Judith L. Millesen, Ph.D.  
Ohio University  
Assistant Professor, Political Science  
Faculty Fellow, Voinovich Center for Leadership and Public Affairs

## INTRODUCTION

Community foundations are a rapidly growing and influential part of today's nonprofit sector. As public institutions with a long-term commitment to specific geographic areas, they are uniquely positioned to engage members of the community in philanthropy, develop a thorough understanding of community needs and nonprofit capacity, and lead strategic community-based efforts. Thus, community foundation board members are important community leaders who face unique and complex challenges.

Unlike other nonprofit and foundation board members, community foundation board members must oversee both grantmaking and fundraising activities. They are charged with shaping their foundation's development, responding to changing public needs, setting strategic goals, overseeing their foundation's finances, deciding on investment strategies, and fulfilling critical legal obligations. And, with the recent flood of corporate governance scandals and current activity in the Senate Finance Committee, there is tremendous pressure on *all* governing boards to demonstrate integrity, transparency, and accountability.

Little is known, however, about how these community foundation boards discharge their responsibilities. To provide a much-needed understanding of how community foundation boards maintain accountability while balancing what has been described as competing mission-related objectives among donors and the community, BoardSource and Ohio University's Voinovich Center for Leadership and Public Affairs set out to learn more about the strategic decision-making behavior of community foundation boards. With generous funding from the Nonprofit Sector Research Fund, a program of the Aspen Institute, and additional funding from the Charles Stewart Mott Foundation, the research team employed a two-stage, multi-method data collection strategy to address four key questions:

- 1) How do community foundation boards respond to unique governance challenges that reflect their multiple roles as grantor, grantee (donor-service obligation), and community leader?
- 2) Do community foundation boards express their values and beliefs through investment and spending policies?
- 3) Do board structure and composition balance the need to make decisions that are in the best interest of the community with the obligation to maintain a sustainable and marketable community resource?
- 4) Are community foundations leveraging resources and facilitating collaborative initiatives to address community problems?

This document provides a summary of the major findings from the data collection, identifies some of the biggest challenges facing community foundations and their governing boards, and presents insights from both the study participants and the research team, along with implications for future practice.

## SAYS WHO?

### SOURCES OF DATA

In seeking to better understand the inner-workings of community foundation boards, the research team collected data from four main sources: (1) BoardSource online self-assessment surveys completed by more than 620 board members from 45 community foundations across the country; (2) direct observation at board meetings of 15 community foundations; (3) intensive interviews with 75 board members (five from each of the 15 boards observed); and (4) organizational archives compiled to ensure compliance with national standards.

### CHARACTERISTICS OF PARTICIPATING COMMUNITY FOUNDATIONS

The research team used a specific sampling method to ensure that the organizational characteristics of the participating community foundations closely mirrored the field. For example, based on the 2003 Columbus Foundation Community Foundation survey data, 56 percent of community foundations in the United States have assets of less than \$10 million. When the sampling frame was created, the goal was for 56 percent of the community foundations in the sample to have assets of less than \$10 million. In the end, the study was successful in enlisting a group of community foundations that is proportionally consistent with the field and varied on multiple dimensions, including asset size (from just over \$600,000 to over \$1 billion); organizational age (from six to 77 years); board size (from five to 39 board members); and chief executive tenure (from less than one week to more than 20 years). All but one of the community foundations employs paid staff. One community foundation is run entirely by a volunteer board of directors and another employs a part-time chief executive.

The sample is also varied in terms of individual board member characteristics. With regard to gender, 61 percent of the sample is female and 39 percent male. The average age of respondent board members varies across the boards, with just over 3 percent being less than 39 years old and the majority of respondents (75 percent) over 50 years old. One percent of the sample is Asian American, 4 percent Latino/Hispanic, 7 percent African American, and 87 percent Caucasian. While 20 percent of the responding board members are retired, the majority works in the private sector (29 percent) or is self-employed (24 percent).

## WHAT WAS FOUND INSIDE THE BOARDROOM?

### GOVERNANCE EXPECTATIONS, ROLES, AND RESPONSIBILITIES

*Finding #1: For many community foundation board members, the multiple mission-related objectives of community foundation governance (grantmaking, donor service, and community leader) are mutually reinforcing.*

One of the project goals was to elicit information about how individual members of the community foundation board understand, interpret, and enact their various roles and

responsibilities. The self-assessment data<sup>1</sup> were particularly useful in learning more about responsibility areas where board members feel the most confident, as well as the areas where the board asked for additional training or information.

Mean scores for most of the self-assessment questions were fairly high, suggesting that those who participated are generally familiar with and pleased with board performance. Community foundation board members are most satisfied with the more technical proficiencies as part of their oversight function, such as performance in understanding the relationship between board and staff, ensuring that the investment portfolio is managed with a reasonable level of skill, and providing effective financial oversight of the foundation's budget and expenses.

### What's Left? Working Harder on the Soft Stuff

Interestingly enough, areas where board members seem to be *least* satisfied with the overall board are the softer, leadership issues related to fundraising, grantmaking effectiveness, and strategic direction. An analysis of the individual self-assessment and the open-ended questions in the survey indicates additional concern regarding public relations and the community foundation's visibility. When asked how the community foundation could improve its performance over the next two years, for example, a common response addressed the importance of enhancing citizen/community awareness of the foundation, its mission, and its goals. There seem to be two key reasons responding board members were focused on

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public relations. First, they believe that if more people knew about “the good work of the foundation,” the foundation would be in a better position to attract financial resources. Second, a comprehensive marketing or public relations campaign would also promote the foundation's desire “to serve as a resource to other nonprofit organizations in the community...to encourage and facilitate nonprofit agency cooperation when appropriate.”

In addition, the self-assessment surfaced considerable board member uncertainty and lack of awareness of industry-related practices. There were four areas (out of 13 responsibility areas)

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<sup>1</sup> Self-assessment data were gathered from the *BoardSource Online Self-Assessment for Community Foundation Boards*, which helps community foundation board members determine how well they are carrying out their responsibilities and identifies areas that need improvement. Questions focused on 13 areas of board responsibility, including: determining mission and purpose, creating grantmaking guidelines, and ensuring adequate financial resources.

where at least 40 percent of those responding to the self-assessment survey reported being unsure of their satisfaction level or that the responsibility was not applicable to their board. Those areas, which professional foundation staff members have also been questioning, included: the board's awareness of the debate regarding payout rates; board policies regarding fiscal agency; an adequate level of directors' and officers' liability insurance for the board; and a policy on board member compensation.

The lack of variation among or between groups, even when the analysis was controlled for foundation size and geography<sup>2</sup>, suggests that although administrative process and function may vary with size and geography, governance strengths and challenges are fairly consistent.

### **Unique Challenges: A Donor-Service Emphasis**

Although board members in this study indicate a preference for long-term steady asset development that promotes fluidity and growth and meets the charitable needs of the donor, they do not think decision-making processes compromise any aspect of mission. Rather, board members believe the three essential elements of community foundation governance — grantmaking, raising funds, and serving as community leader — to be mutually reinforcing and are quite aware of the need for balance. Specifically, board members emphasize that by focusing on donor expectations today, the community foundation will attract the kind of wealth and other resources necessary to be responsive to community needs and lead community change efforts tomorrow. As one board member simply stated, “If we don't have the donors, we can't work in the communities.”

This emphasis on donor service has produced a number of unintended consequences, which have created administrative challenges for many community foundations. This is particularly true among younger community foundations (less than 10 years) and those community foundations with less than \$50 million in assets. These community foundation boards spent their infancy aggressively seeking growth by attracting many different types of funds, including donor-advised funds, scholarships, field-of-interest funds, endowment money, annual funds, and bequests. Now, in their adolescence, the same boards are trying to deal with the administrative quandary they have created and are struggling to define a clear role for themselves in their communities. In the words of one board member:

“There are a number of board members who really think it's important that we administer thousands and thousands of these ultra-small grants, and I and a number of other board members disagree with that because all you are when you do that is a clerk in the works and anybody can do it. You know, we give lip service and say we want to be an organization that has impact in the community, but if all we're doing is writing small checks at donors' requests to various things, we're not impacting the community [by encouraging our donors and by focusing attention on relevant issues]. We're just providing a service and not making a difference in the community whatsoever, and I think we as a board need to come to grips with what we want to be.”

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<sup>2</sup> A copy of the report detailing the self-assessment findings can be found on the BoardSource Web site at [www.boardsource.org/clientfiles/aspensummary.pdf](http://www.boardsource.org/clientfiles/aspensummary.pdf).

In response to these administrative challenges, some community foundations are embarking upon strategic programmatic efforts and establishing (or adhering to) policies to address them. Community foundations are investigating the likelihood of reducing administrative costs in programs and services by combining several different scholarship funds that exist for similar purposes (e.g., scholarships earmarked for students graduating from a particular high school) and making one annual award. They are also working to develop processes that solicit donor-advisors to aid the community by pledging their annual gifts to an existing community need. Several policy-related strategies have been implemented in an effort to decrease management costs and build a sustainable community resource, including: establishing and adhering to minimums on scholarship funds and endowment funds (including provisions that specify what is to be done with the money, should the minimum fund amount not be attained); limiting the number of successive generations that can manage donor-advised funds; and mandating periodic review of the fee structure.

#### THE REPRESENTATION, RHETORIC, AND REALITY OF SPENDING POLICIES

*Finding #2: In spite of published investment and spending policies that appear to be quite similar in emphasis, some community foundations are creatively defining “investment” in ways that are facilitating important changes in communities.*

Another goal of this research was to learn more about whether community foundations express their values and beliefs through their investment and spending policies. In other words, do these policies implicitly favor one aspect of mission over another? A review of these policies revealed very few differences among community foundations. Additionally, although a commonly supported strategy is to provide growth of capital and income to meet

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certain expenses, the written documents justifying these policies (sometimes referred to as guiding principles) demonstrated an acute awareness of the board’s multiple roles.

Document review revealed the importance of balance, and highlighted the significance of growing assets and income as a crucial response to meeting ever-increasing community needs. A review of the meeting minutes from one community foundation, for example, showed that at least one meeting was dedicated to a discussion of the board’s financial responsibility in relation to the sustainability of the foundation. The board discussed the importance of revising its spending and investment policies in order to maintain financial stability so that it could preserve the foundation’s assets. One board member specifically

noted the necessity of establishing a prudent balance between grantmaking, the needs in the community, and the need to preserve the corpus of the foundation.

Interviews also provided evidence of the board's attentiveness to balancing multiple expectations; yet again, there is a clear preference for long-term steady asset development that promotes expansion and flexibility and meets the charitable needs of donors. Another common theme is the importance of developing spending policies that would not only preserve the endowment but also grow assets in a way that provides the foundation with adequate financial resources to address community needs in the future.

### **“Investing” in the Community**

Although the official investment and spending policies are clearly meant to establish guidelines for growing and distributing income in the form of grants, some community foundations expand the notion of “investment” in ways that arguably contribute to building community capacity. As one board member said, “We invest in businesses located in the service area, we purchase goods and services locally when possible, and we provide technical assistance when we are able.”

The investment and spending policies demonstrate a concern not only to satisfy donors by maximizing the value of their charitable dollars, but also a commitment to growing the foundation's assets in order to build a sustainable resource capable of addressing community needs, funding initiatives, and making grants. Board policies, as well as the individual attitudes of board members, both implicitly and explicitly articulate the need to balance the roles of responsible steward with that of a community leader. Community foundation boards are steadfast in meeting their fiduciary and financial stewardship responsibilities by diversifying asset allocation to increase performance efficiency; rebalancing the portfolio with the assistance of investment professionals, as necessary, to improve performance and minimize risk; and, actively monitoring and evaluating investment results, revising strategies, and taking corrective action when necessary. These boards are continually faithful to their public trust obligation to serve as a dependable resource with the ability to meet community needs over the long term.

## **RECRUITMENT, REPRESENTATION, AND ACCOUNTABILITY**

***Finding #3:** A host of demographic changes in local communities have challenged many community foundations in the areas of board diversification, representation, and engagement. Community foundation boards use thoughtful recruitment strategies — taking these three areas into account — to identify board members who are truly committed to the work of the foundation.*

For many of the community foundations in this study, board recruitment is a year-round process — an ongoing study of organizational needs and candidate interests. The data suggest that community foundation boards are both thoughtful and intentional in their recruitment processes, often investing significant time in identifying the right candidates. Overall, board members are proud that their recruitment processes have evolved beyond “symbiotic relationships” or the “warm body” approach.

In spite of any temptation to underemphasize board obligations and needs in the hopes of recruiting big names or heavy hitters, board members who were interviewed in the study see benefits in being forthright about expectations for new board members — a significant pledge of time, expertise, and financial resources; an engaged commitment to the community; and a

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passion for the foundation’s vision. They assert that their candor has at least two important implications. First, they believe that by being honest they are also being fair, which gives those unwilling or unable to fulfill the requirements of a board appointment the opportunity to self-select out or serve the community foundation in another capacity. One board chair, for example, shared a story about a conversation with a board member whose term was expiring and the board member did not want to be considered for another term. The board member indicated that the community foundation’s recent shift in focus was no longer making the best use of her talents. The board chair agreed, but rather than accepting the board member’s resignation, the chair proposed an alternative and asked her to apply her interests and expertise to a short-term task force that had been established to meet an emergent need. The board member accepted the appointment.

Second, the interviewees argue that by being frank about the terms and conditions of board appointment, they are able to create an engaged board with a strong culture of accountability to each other and to the overall work of the board. As one board member explained:

“I’ve served on many boards over the past 37 years, and out of all the boards that I have served, this is the most engaged board. It’s because it’s very clear what the responsibilities are. If you’re a board member who is looking for a plum assignment in town, and that’s all you’re looking for, you’re not going to be here very long because there’s a very strong peer culture. We don’t have any tolerance for not being at meetings. I travel in my job a lot...I appear by telephone and we make sure the bylaws permit that, but I’ll be on the phone from some hotel somewhere for two or three hours on the meetings, and others have done that as well...You just don’t miss meetings and you don’t come ill-prepared. If somebody asks a question on a grant that was answered in the packet [for example], and it’s clear you haven’t read your packet, somebody will point that out: ‘Well you know that was on page 14.’ So there’s no room to hide; you can’t just sit in your chair and put in your time and say ‘yeah’ occasionally.”

Community foundation board members also spoke openly about their steadfast desire to diversify their boards in ways, that as one board member said, “are intellectually honest and not just politically correct.” A common theme is that through thoughtful and intentional

board composition, community foundations are able to balance the multiple expectations of governance. “Balance is maintained by selecting people to serve on the board who are representative of the community, knowledgeable about all aspects of the foundation, and possess the necessary skills to advance the mission.” Many respondent board members argue that diversity is one of the greatest collective strengths of the board, and assert that diversification provides numerous benefits to both the governance process and the work of the community foundation.

### **Representing the Community: It’s Not Always Easy**

An emphasis on the benefits of diversity is not meant to suggest that community foundation boards are not struggling with the concept of representation — quite the contrary. At the heart of the issue is that board members want to demonstrate their commitment to the community by varying board membership in ways that are geographically and demographically representative of the service area. Yet, they also have a desire to attract candidates with the necessary skills and expertise to aid the community foundation in accomplishing mission-related goals and objectives. What these boards *really* want is someone who will commit the time necessary to do the work; the reality is that there could be a candidate outside of the service area who better fits the bill. The bottom line? Community foundation board members philosophically embrace the broad concept of representation, but they don’t want their ideals to derail the practical process of engaging hard working people who can get the job done.

This “needing to get the job done” mindset poses challenges for some boards, particularly those with part-time (or seasonal) residents and those serving a large or expanding geographic area. The decision to be made is on what comes first: a board appointment in hopes that the new recruit will be an advocate in the community, or establishing a presence in the community that will attract potential board members to the foundation.

### **Does Board Composition Equal Accountability?**

So then, does board makeup affect accountability and accessibility? The answer is an unequivocal “it depends.” It depends on the norms in a given community. As one board member said, “[The community] believes that whatever the demographic of the community is, that’s what the demographics of the board should be.” Being demographically representative of the community sends an important signal to the community that the foundation is not an elite institution accessible only to those with power and money. It also depends on the board’s history and experience with diversity. Acknowledging the homogenous nature of the community, one board member said the board stopped looking for demographic representation and focused on diversifying the board in ways that contribute to the current or anticipated work.

The link between board composition and accountability also depends on board culture or the degree to which the benefits of diversity are recognized. While the observed boards with strong norms around open discussion and engaged dialogue at meetings were more likely to value diversity, others did not. In fact, one board member complained that he didn’t know what his peers thought about relevant issues because the board meetings are fairly business-oriented and don’t allow time for meaty discussions that would give board members a chance

to provide more input. In contrast, other board members serve on boards with very strong participation:

“Well everybody is very open-minded. I can’t think of one discussion we’ve had where everybody has agreed right away, or looks to one person to make the decision. We all have very good discussions about where we’re coming from on something and where we think we need to go. We’ve never had a problem meeting consensus. You end up somewhere you didn’t start. I can think of a couple situations where I started thinking one way, [and] by the end of the discussion we decided to do something different than what I would have expected and I was fine with it. That’s because it’s a group of very highly, mutually respected people...I think there is a very high regard for the other person in terms of their background and their capacity for [understanding]....People ask questions — always questions that should be asked; questions I might not have thought to ask. [These questions] keep us accountable....”

Even though the link between board composition and accountability depends on a number of factors, board members do engage in processes that are specifically focused on demonstrating accountability to a broad constituent base. An open-ended question on the self-assessment survey specifically asked board members to provide an example of how the board served,

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represented, and remained accountable to a specific geographically-defined region. Responses clustered around four key themes: focusing on mission, defining service area, maintaining open communication with grantees and other community leaders, and embracing an inclusive grantmaking process.<sup>3</sup>

#### COMPETITION, COLLABORATION, AND COMMUNITY CHANGE

*Finding #4: Community foundation board members are committed to playing a leadership role in their communities, whether convening resources, facilitating collaboration, serving as a catalyst, or leading bold initiatives to make the community stronger and more vibrant.*

Although the self-assessment data indicate that less than 50 percent of the respondents are satisfied that the board has thought through a strategy responsive to competition, some board members promote the distinctiveness of the community foundation by advocating a unique

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<sup>3</sup> For a full discussion of these themes, see: Millesen and Hedge. “Achieving Balance and Maintaining Accountability.” *Foundation News & Commentary*. November/December 2005.

niche for themselves and their competitors. It was not uncommon to hear comments such as, “We emphasize the local and personal aspects of our services — we are local people, serving local people, with local money.” The data also indicate that some community foundations are developing collaborative relationships with competitors (particularly United Ways), creating valuable partnerships that take advantage of economies of scale and thereby reduce administrative costs for the partnering organizations.

“We [the community foundation] have a nice little group they work with. We share office space with United Way and the Chamber of Commerce... The landlord has told us we have to be out by October 1<sup>st</sup> and we have all decided to move as a group. United Way is actually purchasing a building and we’re going to go in. Our rent will be cheaper, the United Way’s costs will be offset, we all get more space — everyone benefits... If people can become less territorial about what they’re doing and see the bigger picture, it’s always better for the community and even better for the people in the organizations themselves.”

### **A Window into Real-Life Partnerships**

Community foundations of all sizes are making the most of limited resources, doing what they can to make appreciable differences in communities across the United States. Data collected for this study show that community foundations are participating as equal partners in broad-based community-change efforts in four main ways:

1. Through cross-sectoral collaboration
2. By facilitating cooperation in coordinating the efforts of nonprofit organizations working to accomplish similar goals, or by requiring grantees to partner with other organizations
3. By serving as a catalyst in bringing the “right” resources (human, social, capital, and financial) to the table;
4. By convening those with information about community needs and ideas about how to address those needs.

**Cross-Sectoral Collaboration.** One community foundation is working collaboratively with the local Business and Economic Alliance to coordinate an effort to transform community culture by promoting civic engagement and building social capital in ways that will make the community more self-reliant amidst tremendous economic turmoil. In 2000, this rural community lost over 4,500 jobs, resulting in a 38 percent reduction in local employment. Finding a way to put the area’s economic future into the hands of the people living and working in the area was a necessity. The community foundation took the lead in establishing an initiative designed to promote responsible, collaborative, and visionary citizenship to transform community culture and invigorate economic development. The initiative provided a structure that would support broad-based inclusive involvement among multiple communities, create new entrepreneurial opportunities, and generate vigorous business growth, while continuing to nurture a spirit of individual philanthropic giving in support of the common good.

**Facilitating Cooperation.** In January 2004, Joan B. Kroc, wife of the founder of the McDonald's restaurant company, made a major gift (estimated to be in excess of \$1.5 billion) to the Salvation Army. The funds were specifically designated for the development of community centers across the country. One of the communities visited as part of this project had been qualified to pursue a multimillion dollar grant for the development of a Ray and Joan Kroc Corps Community Center. Recognizing the impact this center could have on the community, the chief executive of the community foundation took the lead in coordinating local nonprofit leaders with the resources and expertise necessary to meet the requirements of the grant. Every board member interviewed from this community foundation praised the chief executive's leadership and vision for the project. Several board members offered specific examples of how the chief executive mobilized local nonprofits and provided the framework for helping various organizations work together to raise the funds needed for the match.

**Serving as a Catalyst.** Board members from one community foundation discussed how the community foundation took a leadership role by not only bringing essential voices to the table, but also providing the financial support necessary to resolve a community issue. As one board member said, "City schools have been a huge problem of ours, and at the heart of that problem is conflict around who should be superintendent." This board member further explained that there were a number of community stakeholders with very strong opinions

*"We emphasize the local and personal aspects of our services — we are local people, serving local people, with local money."*

regarding the appointment of a superintendent. The problem, as defined by this board member, was that "too many different people had too many different ideas about what should be done." The solution? The community foundation stepped in and offered to fund a consultant whose job would be to bring those with differing opinions to the table and mediate a discussion in a way that would give everyone the chance to air their concerns. The expectation was that if everyone had an opportunity to constructively address issues and worries, the hiring process would not be disrupted by personal agendas.

**Convening Those with the Requisite Information.** Several of the community foundations participating in this study recognized they were in an influential position to convene those with the requisite resources (information, expertise, access, etc.) necessary to address community issues. One board member provided two powerful examples of initiatives taking place at the community foundation. One initiative was around the issue of health care and the other was designed to strengthen education throughout the community.

*"We find out the real needs in the community [by bringing together nonprofit providers] and then we collectively determine the best place to spend the dollars overall. We have formed sort of a coalition where we can bring together lots of people who have been working on individual pieces of this problem to think together about it. That has been a real powerful multiplier effect for the resources that we have."*

Consistent with other recent studies on community foundations, data from this study show that many community foundations are working in tandem with other nonprofits, the government, and the business community to generate appreciable change in their communities.

## CONCLUSION: WHAT NOW?

### IMPLICATIONS FOR PRACTICE

Faced with challenges such as an increasingly competitive fundraising environment, changing community demographics, donors who demand unprecedented involvement with their giving, an unstable economic environment, and dwindling government support for social services, many community foundations are balancing the need to be responsive to a savvy donor base with the demand to create a sustainable resource capable of meeting community needs.

As already discussed, findings from this study cluster around four core themes. Many implications can and should be taken from these results.

**1. For many community foundation board members, the multiple mission-related objectives of community foundation governance (grantmaking, donor service, and community leader) are mutually reinforcing.** Although the data indicate an implicit preference for the donor-service role, board members do not believe that by focusing on donor expectations they are compromising other aspects of mission. In fact, they assert that by embarking on aggressive fundraising campaigns (whether these campaigns result in immediate growth or future gifts), the community foundation will be able to build a perpetual resource capable of serving the charitable needs for which it was founded.

However, data from this study show that disparate fundraising strategies of the past have unintentionally influenced the strategic direction of many community foundations. A number of community foundations in this study raised money from a wide variety of sources — not because they set out self-reflectively to be donor-oriented, but because that approach gave them the most money in the shortest period of time. Now, they are trying to overcome the self-created administrative challenges and to define their role in the community.

*The implications?* If fundraising, grantmaking, and playing community leader are reinforcing, community foundations need to do the following:

- Tackle the administrative challenges and better manage donor expectations.
- Find a better way to link these obligations by making connections between the “programs” (grantmaking areas) and the people involved (grantees and donors).
- Articulate, internally and externally, the balance between short- and long-term community needs and concerns.

Although board members believe that aggressive fundraising strategies will provide the funds necessary to meet community needs, unless administrative capacity can keep pace with

growth, community foundations will find it difficult to be responsive to community expectations in the future. This means that the board must explicitly consider the tradeoffs associated with decision-making processes that favor certain aspects of mission over others.<sup>4</sup>

For example, although donor-oriented foundations attract donors and build endowment in the short-term, they also invite administrative complexity that must be addressed in the future. Similarly, grants-oriented foundations that are responsive to community needs and

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make investments to build the capacity of local nonprofit organizations may never achieve the assets necessary to distinguish themselves from their competitors because they do not invest the time and resources necessary to raise additional income. Community-oriented foundations focused on playing a leadership role (e.g., facilitating collaboration, serving as a catalyst) may actually garner broad-based community support before they have established strong asset development or grantmaking programs.

An awareness of these tradeoffs and challenges will provide board members with the tools necessary to better manage donor expectations, establish contract provisions that reduce administrative complexity, and determine fee structures that are both competitive and accurately reflect the costs associated with fund management.

**2. In spite of published investment and spending policies that appear to be quite similar in emphasis, some community foundations are creatively defining “investment” in ways that are facilitating important changes in communities.** Several board members emphasized the importance of establishing investment and spending policies that provide donors with competitive rates of return and a reasonable amount of discretion over their charitable contributions. Since this appeared to be a fairly common practice, there was little variation in published spending policies.

However, during the interview process when asked to specifically talk about how investment and spending policies reflected the community foundation’s values, board members were quite creative in their responses. Even when community foundations have limited discretionary funds to direct toward critical community needs, they can express their investment values by spending money in local communities and by building nonprofit capacity whenever possible.

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<sup>4</sup> For a full discussion on tradeoffs, see: Leonard, Jennifer. “Creating Community Capital: Birth and Growth of Community Foundations.” *An Agile Servant: Community Leadership by Community Foundations*. New York: Foundation Center, 1989.

### *The implications?*

- Since traditional portfolio investments and spending policies are *not* often matched to grantmaking priorities, foundations can find other ways to “invest” in the community.
- Community foundations may need to get more involved in capacity building, organizational effectiveness, and technical assistance as a way to invest in the change they want to see.
- The finding suggests a need for community foundations to be bolder in looking at other ways to leverage their assets (such as program-related investments).

Data from this study suggest there are at least three ways community foundations can make “investments” that facilitate community change. First, community foundations can invest in local businesses by purchasing goods and services or by taking the lead in building a vibrant business community that will nurture entrepreneurial initiatives and build a diverse and prosperous local economy.

Second, community foundations can invest in the local community through providing technical assistance to local nonprofits, thus building organizational capacity and strengthening the community by making a strategic “investment.” One board member’s story highlighted a dying arts community. He explained that there were four major arts organizations in the community, each with its own set of administrative challenges and each trying to build a loyal constituent base that would generate enough income to keep the organizations operational. He also explained that a history of competition between the organizations seemed to have a detrimental affect on community perception and organizational membership. Steadfast in its belief that arts and culture were important aspects of an exciting community, the foundation board decided to create and fund a consulting arrangement that would promote cooperation and collaboration between the four organizations. The community foundation paid a consultant to work collaboratively with the arts organizations to address the administrative challenges and develop four unique marketing campaigns that would promote the distinctive aspects of each organization. At the time the data were collected, three of the four organizations had demonstrated appreciable administrative change and noticeable increases in membership.

Finally, community foundations can leverage limited resources and invest in the community by proactively linking donors and community needs. A few of the community foundations in this study provide a list of pending grant requests to those with donor-advised funds in the hopes that donors will pledge their gifts to an existing need, thereby maximizing the foundation’s discretionary money.

**3. A host of demographic changes in local communities have challenged many community foundations in the areas of board diversification, representation, and engagement. Community foundation boards use thoughtful recruitment strategies — taking these three areas into account — to identify board members who are truly committed to the work of the foundation.** Although board members were quick to point out the accountability-related benefits of diversification, they were also quite aware that unless the representative is fundamentally committed to the work of the board and the community foundation’s mission, engagement is likely to be an uphill battle.

*The implications?* This finding poses at least two significant suggestions — both clustered around the importance of deliberate board recruitment and ongoing training.

- First, board member identification and recruitment *must* be a thoughtful practice. Boards need to define diversity in ways that make sense for their specific group. To do so requires the board to be candid about what they are hoping to achieve with diversity and to communicate those expectations to potential board members. Remember: Just because a person has powerful community ties and tremendous social influence, does not mean that he or she will engage these resources in support of the community foundation’s mission. The best way to get someone to perform in a way that is consistent with expectations is to be clear about what is expected.
- Second, once board members are recruited who are sufficiently knowledgeable about the mission and committed to doing what’s expected, it is essential to invest the time and resources necessary to keep these board members informed and to benefit from their experience and expertise. What seems to get in the way of board training and engagement is not board resistance (in fact, a number of the self-assessment respondents advocated for additional education and training as well as more opportunities to discuss issues in more detail), but rather a hesitation on the part of executive staff to ask too much of the board.

*“We have formed sort of a coalition where we can bring together lots of people who have been working on individual pieces of this problem to think together about it. That has been a real powerful multiplier effect for the resources that we have.”*

The tendency to put a heavy emphasis on the “efficient” use of time (meeting agendas that focus more on making sure the meeting ends on time rather than on the substance of the issues to be discussed) leaves little or no time for meaningful board participation. Thus, the very reason board members were recruited — to contribute their perspectives or expertise — is disrupted in the quest for efficiency and out of respect for board members’ busy schedules. It is important to keep two things in mind: First, board members *want* to help and are committed to governing their organizations well; second, requests for assistance can both be respectful of the board member’s time *and* ask for participation in ways that help advance mission and purpose.

**4. Community foundation board members are committed to playing a leadership role in their communities, whether convening resources, facilitating collaboration, serving as a catalyst, or leading bold initiatives to make the community stronger and more vibrant.** Board members articulate a shared passion and a common commitment to unleashing grassroots efforts that bring about meaningful change. In spite of this strong desire to facilitate change, there are a number of factors that influence board vision and style. They

include issues of alienation (concerns about taking on issues that are “too controversial” or “too political”); tradition (conformity to a familiar operational mode); serendipity (“being in the right place at the right time...can influence how we do business”); grantmaking philosophy (is it better to grant small sums of money to a number of charitable causes, or to invest substantial amounts of money into one or two major issues?); and leadership (who is at the helm makes a difference in whether the community foundation is leading change or reactively responding to community needs through the grantmaking process).

*The implications?* Board members must work in tandem with executive staff to proactively balance the factors that are influencing strategic direction. Again, boards must be aware of the choices and tradeoffs; even if an issue is considered controversial or politically charged, the community foundation can still play a role in leading the community change effort. Those embarking on community change initiatives argued that taking a leadership role was not synonymous with taking sides or advocating one position over another. Rather, leading community change means bringing hot topics into the open and convening those with the vital information, resources, and skills to the table to address the issues in a cooperative and collaborative way. And, the board needs to take a leadership role in establishing a shared grantmaking philosophy — how many issues will the community foundation address and what kinds of resources will it commit to those causes? This type of leadership can act as a catalyst to unleash grassroots efforts that will bring about meaningful change.

Equally important is the ability to challenge the status quo. Sometimes the board becomes complacent; rather than engaging the debate, it simply continues with familiar practices. In these instances, it is imperative for the board to seek out alternatives and encourage input and advice from the staff who are working on these issues daily.

#### FOOD FOR THOUGHT

In times of economic uncertainty, rapid technological change, dwindling resources, and complex societal needs, the decisions community foundation board members make have a far-reaching impact. Consistent with emerging literature in the field, community foundations of all sizes are making the most of limited resources, doing what they can to make appreciable differences in communities across the United States.

In spite of a number of recent published reports about community foundation practice, the study of how these groups convene resources, solve problems, and advocate change is still relatively young. There is much to be learned about how these important organizations discharge their responsibilities in ways that are accountable to multiple constituencies.

## APPENDIX: RESEARCH ADVISORY COMMITTEE

Michael L. Batchelor  
President  
Erie Community Foundation  
127 West Sixth Street  
Erie, PA 16501-1001  
814.454.0843  
mbatchelor@cferie.org

Sarah Di Troia  
Associate Director  
Center for Effective Philanthropy  
678 Massachusetts Avenue, Suite 903  
Cambridge, MA 02139  
617.492.0800  
sarahd@effectivephilanthropy.org

Leslie A. Dunford  
Vice President for Corporate Governance  
and Chief of Staff  
The Cleveland Foundation  
1422 Euclid Avenue, Suite 1300  
Cleveland, Ohio 44115 - 2001  
216.861.3810  
LDunford@clevelandn.org

Dianne K. Garnett  
President & CEO  
Community Foundation of the  
Lowcountry, Inc.  
P.O. Box 23019  
Hilton Head, SC 29925-3019  
843.681.9100  
dgarnett@cf-lowcountry.org

Teri Hansen  
President/CEO  
Gulf Coast Community Foundation of  
Venice  
601 Tamiami Trail South  
Venice, FL 34285  
941.486.4601  
thansen@gulfcoastcf.org

John (Jack) Hopkins  
President & CEO  
Kalamazoo Community Foundation  
151 S. Rose Street  
Kalamazoo, MI 49007  
269.381.4416  
jhopkins@kalfound.org

Char Mollison<sup>5</sup>  
Vice President Constituency Services  
Community Foundation Services  
Council on Foundations  
1828 L. Street, Suite 300  
Washington, DC 20036-5168  
202.467.0381  
mollic@cof.org

Kate Nielsen  
President  
The Community Foundation of Greater  
Birmingham  
Suite 700, 2100 First Avenue North  
Birmingham, AL 35203  
205.328.8641  
kate@foundationbirmingham.org

Clare Payne Symmons  
Executive Director  
Community Foundation of Jackson Hole  
255 E. Simpson Street  
P.O. Box 574  
Jackson, WY 83001  
307.739.1026  
csymmons@cfjacksonhole.org

Barbara A. Young  
President  
Porter County Community Foundation  
P.O. Box 32  
Valparaiso, IN 46384  
219.465.0294  
byoung@portercountyfoundation.org

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<sup>5</sup> Char Mollison replaced Ellen Bryson when Ellen announced her retirement from the Council on Foundations in 2004.