

Early Stage Development of Community Foundations: Challenges to Growth

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"I see the rebirth of this nation rising out of the nation's communities...The next America will be forged in America's communities. That's where the fabric of our society is being re-woven"

John Gardner

(former United States Secretary of Health, Education and Welfare)

Introduction

As America approaches the Millenium there is a widespread and remarkable transformation underway across the land. While the national media is distracted by events in Washington, the real story is out in the communities where, neighborhood by neighborhood, block by block, local residents are creating strategies for longterm community revitalization and development.

At the forefront of many of these local efforts are community foundations. Because they are uniquely able to act simultaneously as conveners, catalysts for change, and grantmakers, they are creating new collaborations to forge new solutions to longstanding community challenges including crime, drugs, homelessness, youth development, and cultural participation.

This new proactive role extends far beyond community foundations more traditional mission of simply building a charitable endowment, a "savings account" for future community needs. This function too is showing unprecedented growth as increasing numbers of individual donors are attracted to community foundations for their charitable expertise, professional advice on community needs, and administrative services. But to be

successful in the early years, community foundations need strong leadership, a clear vision, and a realistic strategic plan.

This paper will examine the challenges and opportunities facing the newly emerging community foundation in the United States and overseas. It begins with a brief review of the formal definition of the community foundation model as understood in the United States. Interestingly it is often the unique characteristics of a community foundation — notably its role as a convener and fundraiser for a specified geographic area — which also underlie some of the challenges. The paper will then explore several of the factors which can be impediments to the creation of a new community foundation where none has existed before. Next is a brief review of the very early years, which is in many ways the time of maximum vulnerability for the new organization.

In addition, attached in Appendix A is a brief list of several specific strategies that have proved useful in my region to accelerate initial growth beyond the very early stage. They have been responsible for helping build my foundation from \$7 million in total assets in 1989 to over \$260 million ten years later. I include them in order to help fuel a wider discussion of this topic.

By way of brief context for my perspectives, it is important to understand the region served by the “Community Foundation Silicon Valley”. This is a region of nearly two million people in 15 cities, including California’s third-largest city, San Jose. The economy is based on technology and has attracted immigrants from around the country and around the world. 60% of the diverse population was born elsewhere, and over 54 languages and dialects are spoken in the public school system.

The philanthropy in the region is markedly different from older more established areas of the United States. In 1998 my foundation conducted the first-ever research into the charitable attitudes, behavior and motivations of our new high-tech wealthy. It is available on our website (www.cfsv.org). Contrasted to the United States as a whole, our research revealed that donors in Silicon Valley are: far younger, more generous, more

results-oriented in their giving, more concerned with education, far more independent in their charitable decision-making processes, and more likely to have a global outlook on giving. They also want to be certain that their “charitable investments”, as they are likely to call them, are thoughtful, performance based, and focused on prevention, not symptoms.

For these reasons my community foundation is in a rapid growth cycle, well beyond early stage, as many of the new entrepreneurs, particularly those in internet companies, in effect “outsource” their personal and corporate giving to the community foundation in order to obtain professional charitable giving expertise. But lets begin a consideration of the topic of early stage growth by first re-visiting the basics, the definition of a community foundation as understood in the United States.

Part I: Definition of Community Foundation

There are, at last count, 547 Community foundations in the US and they hold combined assets of over \$21 billion. Many of the largest are in the older cities of the East and Midwest where for decades they have served the charitable instincts of those families made wealthy in the United States Industrial Revolution at the turn of the century. But the fastest growing community foundations are in the West, where the current technological revolution is fueling rapid economic growth, newly wealthy entrepreneurs, significant new immigration, a widening gap between rich and poor in many communities, and a pervasive need for a more civil society. But whatever the region, all United States Community foundations share the following seven characteristics:

1. Is recognized by the United States Internal Revenue Service a *public charity*, a 501 © (3) tax-exempt organization.

2. Has now (or is developing) *broad local financial support* in the form of donations from many separate and unrelated donors with diverse charitable interests in the community.
3. Has an *independent governing body* broadly representative of the public interest.
4. Operates primarily as a *grantmaking institution*, though may also provide some direct programs and services.
5. Serves a *defined geographic area* that constitutes, in some meaningful sense, a “community”. In the United States this is typically a city, a county, or multi-county region.
6. Maintains a *broad grants program* limited neither by fields of interest nor by a narrow segment of the population of the area served.
7. Has a longterm goal of increasing permanent unrestricted *endowment* for future community needs.

These definitional characteristics make community foundations unique. No service-providing NGO, nor any government agency, civic association, hospital, university, museum, club, or United Way meets these criteria which, taken together, have helped make community foundations the fastest-growing form of philanthropy in the United States.

Part II: Major Challenges of the Start-Up Phase

To start a community foundation where none now exists is challenging for several reasons:

1. *Community Building.* There may not be a well-defined sense of community, a natural region, or identity upon which to build the community foundations programs. For example, there may be a major city in a “region of common interests” but it can be difficult to also ensure that smaller, surrounding cities are also served. This dilemma is made more urgent if, as is often the case, many potential donors reside in these adjoining areas. One logical solution is to create local “affiliate” funds/organizations, although these can become independent, break away, and end up Balkanizing the wider community building effort. They can also have the effect of isolating wealthier areas, confining giving only to matters within those wealthier areas, rather than in the community at large.

2. *Funding Capacity.* There may be inadequate local private wealth to sustain an emerging community foundation, and without it there may be a fatal attraction to massive governmental support upon which (for the definitional reasons outlined) no community foundation can successfully build. This is one of the trickiest challenges. Without significant local private capital and/or local traditions of philanthropy, it is tempting to turn entirely to government funding. But such funding can doom a community foundation's chances to establish its neutrality and credibility, without which it cannot survive as an independent organization. Once established, community foundations need to work collaboratively with local/regional government, but must not be perceived as being political-driven or, worse, as dependent on the political process for funding. Political parties and elected officials may come and go but a community foundation is designed to endure for generations.

3. *NGO Relations.* There may be antagonism from the existing NGO sector rooted in its fear of the competition for funding from a new organization. This attitude can quickly extinguish the community foundation spark. If there has been no local experience with a community foundation model the NGO sector is often unwilling to experiment with a new philanthropic mechanism which, while perhaps benefiting them in the long run, may absorb scarce funding, leadership, and political attention. In these cases the NGO sector can be expected to remain skeptical if not outright hostile.

4. *Leadership Development.* Conversely, the local NGO sector may so poorly developed that the available pool of volunteers is too small for the community foundation to build upon. A tradition of government intervention may be the only experience. This condition often occurs simultaneously with a lack of identified local, non-partisan, leadership willing to step forward on behalf of community building efforts.

Part III: Major Challenges of the Early Years

Once established, however difficult and protracted this first phase may be, a new community foundation faces at least five major challenges, some of which carry over from the start-up phase. How quickly and well the new community foundation can effectively deal with these matters may well signal its likely chances for long-term success.

1. *Fundraising and Promotion:* One of the most challenging and most urgent matters is to raise initial funding. New community foundations often find themselves raising administrative, endowment, and program support all at once. It is important to create a fund development plan that acknowledges these different needs and which has timelines and strategies which reflect the gradual shift, over time, from administrative/program donations to more longterm endowment support.

2. *Staffing:* A community foundation simply will not realize its potential, or in some cases even survive, unless there is an office, at least one paid staff (if only part-time at first) and a fully engaged board of volunteer directors.

3. *Relations with NGO's:* A community foundation is by definition a mechanism to expand available charitable funds from many sources. As it struggles to survive in its early years, however, the NGO community may not readily see these longterm benefits, the new grant monies, the new opportunities for collaboration, but will simply see instead

a new competitor for already scarce resources. Since individual volunteer community leaders, each potentially an ally to the new community foundation, often make up the boards of Directors of NGO's, it is doubly important to have positive relations with the sector.

4. *Building the Board:* The dilemma is that it is difficult to attract and energize top community leadership in an emerging organization which has no track record; on the other hand, without this local leadership the community foundation may not be able to create such a record. In my experience, the caliber, vigor, dedication, and prominence of the new community foundation board is probably the single greatest contributor to success of a new community foundation.

5. *Community Expectations:* As with the NGO's, the community itself may be frustrated by a new community foundations apparent slow progress in providing grants for local projects. The concept of an endowment, meanwhile, from which only a portion (typically 5% in the United States) will be distributed each year, may be difficult to understand and accept when current community needs are so great.

Part IV: Conclusion

The emergence of community foundations in the United States and around the world has taken many forms, and each local situation is unique. For example, some community foundations have grown and evolved out of a single-issue NGO (for example, environment or mental health services). Less successfully, some have evolved from – and sometimes never discarded – a local political leader's vision. Sometimes an energetic neighborhood association, which had perhaps coalesced around a single issue such as pollution or youth needs, gradually grew into a broad-based coalition serving the wider community.

Not surprisingly, local political context, economic conditions, legal framework, philanthropic traditions, and the NGO sector all are variables, which will directly affect the potential for community foundations. When conditions are not right for a true community foundation, as has been discussed here, other similar but not identical “community foundation-like” models can evolve. These include economic development organizations, united fund drives, social clubs, and other structures. These can be interesting and effective variations, in many cases, but none function with the special qualities that a broad-based community foundation can provide.

Community foundations, whether in the United States, in Europe, or elsewhere in the world, cannot revitalize their communities overnight. But what they can do, and do better than nearly any other organization, is to forge collaborations, motivate key stakeholders, link up the leadership and the assets of a community, and articulate and promote its shared values. Working in close connection with NGO’s, government, corporations, and others, it is community foundations which can best crack the atom of civic power and unleash its energy to create a citizen-driven and more civil society. To create and sustain a community foundation takes a significant investment of a community’s resources, time, and, most of all, its people. But that investment’s return will be counted by the community for generations to come.

Appendix A: Strategies for Early Stage Development

Many community foundations in America have devised strategies to meet these challenges of early stage growth. The Council on Foundations in Washington, D.C. is an excellent resource for publications, advice, and connections to community foundation leaders willing to share their expertise and experience. While it is decidedly true that there is no single and correct way to meet the challenges outlined, there are some proven techniques, and among those that have been employed to build “Community Foundation Silicon Valley” are:

1. *Train and Energize the Board of Directors:* The board members of a new community foundation are perhaps the single most effective potential tool for growth, but only if they are trained and activated. As community leaders, they can promote the foundation not only in words, to their colleagues and the community at large, but also by their actions as donors and informed participants in the community foundation processes. It is unrealistic to expect that others in the community will join in the community foundations work unless the board is fully engaged.

2. *Partner with Financial Advisors:* Often trusted intermediaries such as attorneys, accountants, financial planners, can become an effective “indirect sales force” promoting the use of community foundations to their wealthy clients, and at times, to corporations. They can engage and motivate community leaders and help build both awareness and funding for the community foundation. They bring credibility and help get out the word that this new entity can meet *donor’s* needs (for wise and effective charitable involvement) as well as the community’s needs.

3. *Attract Outside Funders:* Because of its role as a neutral, informed, trusted convener, often even a new community foundation can attract very significant funding from foundations and corporations outside the region who see the community foundation as a collaborative mechanism to carry out their philanthropic agenda at the grass roots level. That agenda may be in healthcare, environment, youth, neighborhood revitalization, or

other field of interest. Such outside funds can make a new community foundation seem larger (and more helpful) than its own initial local funding permits, which in turn builds more local awareness of the community foundation. Bringing in outside funds also tangibly demonstrates how/why a community foundation can build local NGO's in ways that no other entity, government or private is able to do.

4. *Create Local Collaborations*: Similarly, the community foundation itself can convene a group of key stakeholders (local residents, NGO leaders) around a community issue, along with potential funders (government, private, corporate) to create new collaborative solutions for local challenges. Not surprisingly, it is often the community foundation which is best positioned to then implement these strategies. Another benefit of these collaborations for the new community foundation is that community foundation administrative funds, always hard to find, can sometimes be obtained in the process.

5. *Conduct Research*: A good low-cost way to build visibility and credibility for a new community foundation is by conducting community needs assessment and charitable giving research. Such data helps NGO's with their marketing, informs the public, builds media interest, and positions the community foundation as a caring community advocate on behalf of community concerns. Such research need not be expensive, particularly if conducted with local expertise, perhaps in a university, etc.

6. *Create and publicize Small Victories*: There is no substitute for small, measurable, specific accomplishments which give a tangible sense of the potentials for the. Whether providing funds for a neighborhood cleanup/festival, providing emergency support to help a small community clinic meet an unexpected crisis, or convening a forum on racism and immigration, community foundations should seek out opportunities to demonstrate the unique role and special capacities of a community foundation.