

Starting Up a Community Foundation, Governance and Organizational Development

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My responsibility today is to talk with you about the “how-to,” the practical steps in starting a new community foundation. But first I want to take one moment to talk with you about the “why,” why one would choose to create a community foundation to serve one’s community.

I have just come yesterday from Berlin, the city that more than any other place symbolizes to the world the advance of civil society in the last decade. We have here today representatives from Dresden, Poland, Slovakia, Russia – all places that ten years ago would not have even had the opportunity to publicly discuss the notion of civil society, much less the role of community foundations in them. We tend to think of the changes that began ten years ago primarily as the advance of political democracy in the former Communist nations. But I would submit to you that the sweep of change is much wider and deeper than that. For example, we have seen, worldwide, the decentralization of government functions and decisionmaking from central authorities to local units. And we have seen the redirection (I do not like the term “devolution,” because it implies a negative trend, and I do not believe that this trend is necessarily negative) of formerly public-sector responsibilities to private, for-profit institutions and the private NGO’s.

What does this have to do with our discussion today? Well, I see community foundations as the democratization of philanthropy. The community foundation seizes upon and empowers all of these trends – civic participation, localization, privatization – and gives them their highest and best expression. A community foundation provides a capacity – a vehicle – for *every* citizen – those of substantial and modest means alike – to participate *voluntarily* in the betterment of his or her community. And therein lies the real power and genius of the community foundation, not only to be a part of civil society but in fact to be an institution to *create* and *expand* civil society within a given locality. It is a vehicle whose time has come – worldwide.

Then, once you have decided you want one of these marvelous institutions in your community, how do you do it? You have all heard the wonderful story of the “Guetersloh City Foundation” (“Stadt Stiftung Gütersloh”) and the work it is now doing in this community. You have also, no doubt, heard the remarkable story of its founding and of the remarkable generosity the Bertelsmann Company and Reinhard Mohn in putting together a gift of \$2 million marks to create the Foundation. But lest you think that a founding gift of \$2 million marks is essential, and that without such a gift you cannot be successful, let me tell you another story.

In 1983, in a small city of about 150,000 people in the US, a respected biochemist and Nobel Laureate, Dr. George H. Hitchings, called together a group of about 50 diverse community leaders. “I’ve been hearing about this thing called a community foundation,” he said, and I think our community ought to have one. And I’m willing to put \$1,000 into the pot to get it started.” Today – 15 year later – that \$1000 has grown to over \$67 million. The Foundation, the Triangle Community Foundation, now serves a region of nearly 1 million people, and makes grants of \$5 million annually.

Although I would never claim that starting with only \$1000 is a “best practice,” – in fact, I would urge you if possible to build some meaningful founding commitments before launching a community foundation--I tell this story to illustrate that there are other, much more important factors than initial assets in building a successful community foundation. So what are the key ingredients?

First, every successful community foundation I have seen, whether in the U.S. or in Europe has had a committed, tenacious, and respected leader, willing to commit his or her time and credibility to ensure the Foundation’s success. George Hitchings and Reinhard Mohn are men from two very different worlds, but with the same vision: to create a lasting institution for their home community that would allow anyone in the community to become a philanthropist and would support the community’s betterment in large and small ways in perpetuity.

A second key ingredient is the recognition that however charismatic the founding leader, he or she cannot go it alone. Why is this important? First, we all know, in whatever enterprise we are

involved, that the wisdom of many is superior to the wisdom of one. The Board as a whole must encompass the knowledge, strategic thinking, energy, and contacts needed to create and communication a new institution. Second, and perhaps even more important, in order to make the “community” in “Community Foundation” real, the foundation’s governing board needs to encompass and embrace all of the elements of the community. Typically, this means including respected leaders from the academic sector, the business and banking communities, local government, and NGO’s. In the case of the “Triangle Community Foundation”, it meant consciously choosing a universally respected leader of the African American community as Founding Vice President. In the industrial cities of the US Northeast and Midwest, embracing the whole community might mean including labor union leadership; in the Southern tier states it might mean Latino representation; in the communities of Central and Eastern Europe with whom I have worked, it has meant including religious leaders. The point is that whatever elements constitute “community” in a given region must be embraced within the foundation’s governance as a clear sign that the Foundation will serve the entire community. In addition to the board, many community foundations also establish advisory boards and committees reporting to the board as additional ways of reaching out to people of diverse backgrounds and perspectives. In any case, the importance of the composition of the founding board and committees cannot be overstated, because in its earliest days – before it accumulates substantial assets and begins to make substantial grants—the credibility, knowledge, skills, and representativeness of the foundation’s volunteers is the community’s only indicator of what this new institution will become.

I am often asked about the importance of including, in the founding stages, individuals and corporate representatives who have the capacity to financially support the fledgling foundation. Of course, common sense tells us that this is very important; indeed, four of the first five substantial donors to the “Triangle Community Foundation” were members of the founding board. Nevertheless I would urge you balance the level of quality and credibility on the board with financial capacity. If the board is respected and representative, it will attract financial capacity. The reverse is not necessarily true. In summary, in choosing the board, the qualities that matter most are, first, wisdom, credibility, and representativeness, and second, financial capacity to support the new institution.

The third universal ingredient in creating a successful new community foundation is a well-conceived strategic plan. That plan should include, as a minimum, the three major areas of community foundation functions: asset development and donor services; financial management and administration; and programs and grantmaking. Obviously, each will take on a different degree of urgency under different circumstances and at different stages of the foundation's life. For most, asset development will have the greatest degree of urgency at the outset.

The asset development plan for a new community foundation needs to consider at least two elements: short-term funds for administration and longer-term funds for grantmaking and endowment. Ideally, a community foundation will have funds for administration – including staff – for a 3-5 year period committed in advance before it opens its doors. As part of developing an initial plan, new foundations often wonder whether it is essential to have a staff at the outset, or whether they can “get by” using volunteers. Around the world, experience shows that it is very difficult for a community foundation to take off successfully without a dedication, energetic, and visionary staff.

The typical sources for covering the administrative costs of a new community foundation are in two categories – insiders and fellow philanthropists. Insiders are those, often board members, who have already made a moral commitment to the foundation's success. These people are already believers, and can most easily be convinced to invest their own resources in the foundation's future. Fellow philanthropists are those individuals and institutions who, because of their own involvement in philanthropy, can understand the value of an institution that will involve many others in the philanthropic enterprise. These include local and national private foundations, corporate foundations, and family foundations. Some of these same sources may also be willing to provide initial grantmaking funds while the endowments are being built. Early grants are important as a demonstration to the community of the new foundation's value and long-term potential and also helps to allay a sense of competition with other NGO's.

The truly exciting asset development work of a community foundation begins when it gets beyond survival to building funds for long-term impact. In the US, this happens through

cultivating donors to begin individual, named funds – often-permanent endowments – in the community foundation. Who are these donors? First and foremost, they are individuals and families within the community who have an interest in creating a philanthropic legacy, either through lifetime gifts or bequests, in the community foundation. Often, the community foundation will reach these individuals by first working with intermediaries – attorneys, accountants, financial institutions, and so on – who will then introduce their clients to the community foundation. In addition, many corporations work with community foundations, often to manage a corporate contributions program on the company’s behalf. Existing private foundations and other philanthropic funds join with community foundations in two ways. One, they may make grants to the community foundation to create a fund for a specific purpose or for the community foundation to re-grant, believing that the community foundation has the best broad community perspective to determine local needs and ways to meet them. And two, many private foundations and other philanthropic funds determine that it would be more efficient or effective to affiliate directly with the community foundation rather than to continue to operate independently. In these cases, the existing foundation becomes a fund of the community foundation but generally maintains the charitable purposes for which it was originally created. Governments often partner with community foundations, typically to manage grant programs for a particular purpose. And finally, other NGO’s may join with community foundations to manage endowment funds on their behalf. And just what is the potential here? Well, from these sources, the more than 500 community foundations in the US are now growing at a breathtaking rate, expanding by more than \$2 billion per year.

Although asset development may be the most urgent area at the outset, I want to suggest that it is also important to have a plan that includes financial management and administration, and programs and grantmaking from the beginning. Why? Because in the best-run community foundation, each will be carefully integrated with the others. Let me share just two examples.

In the community of Varna, Bulgaria, as is true in many communities in the formerly Communist countries, the community foundation not only faces huge challenges in asset development because of an underdeveloped private economy, but also faces even greater challenges in overcoming the psychological legacy of a regime in which individual citizen participation of any

kind was systematically stifled for decades. Believing that restoring civil society means broadening citizen participation, the community foundation there has consciously integrated its asset development and grantmaking strategies by mounting some grantmaking programs – for example, care of orphans and street children – that have also successfully attracted hundreds of small gifts. They have thereby accomplished three important goals: adding to the Foundation’s assets, helping vulnerable children, and creating a new spirit of civic responsibility.

Similarly, many U.S. community foundation have begun to integrate their strategies for asset development and financial management. Many US Community Foundations have realized that financial institutions – not just banks but also brokerage firms and investment managers – can be powerful allies in asset development as well as financial management. They are creating partnerships in which a financial institution can encourage a client to create a charitable fund in the community foundation, and the assets of that fund continue to be managed by the referring financial institution. Everybody wins – the financial institutions maintain their client relationships and asset management, the community foundation gets new donors and the financial institution’s investment expertise, and, most important, the community wins because new assets are brought into philanthropy. These partnerships are now bringing millions of dollars into the asset bases of US community foundations.

Finally, the most essential “best practice” of a community foundation – merging or mature, small or large, American or European – is a commitment to learn from one another. We are here today because of the Bertelsmann Foundation’s commitment to that principle. All of the speakers during this conference are attempting to share the best of their wisdom and experience with you, but I know I speak for all of us when I say that our presentations are only half of the equation. The equal value of this gathering and the ongoing relationships that we will establish here is what we will learn from you as you go forward, adapting this model to your own communities and creating innovations that we cannot today even imagine. Perhaps the greatest strength of the community foundation model is that it is not a stagnant institution, but is constantly re-inventing itself to address new opportunities and challenges as they arise. And in the months and years ahead, I suspect that as at least as many of the new ideas will be coming from this side of the Atlantic as from the other.

So I close with undiluted sense of excitement and anticipation and expectation. The community foundations that you will create will have untold impact on each of your individual cities, as resources and brainpower are applied to local challenges. They may very well transform Germany and Europe, as millions of citizens of both substantial and modest means become empowered through this vehicle to create positive change. And they will, undoubtedly, reverberate throughout the world, as the German talents for organization and ingenuity are added to the rich mix of skills being applied worldwide to community foundations and, through them, to the new world of the new millenium. I look forward to working with you in the years ahead and, with you, to watching with anticipation as this new world emerges.