

Making Waves to Build Community and Raise Assets: A 21st Century Strategy for Community Foundations

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Keynote Address
Community Foundation Network Annual Meeting
September 24, 2003

Introduction

It is a wonderful honor to have been asked to participate in the Community Foundation Network's 8th meeting, "Making Waves." I want to especially thank my good friend George Hepburn of the Community Foundation of Tyne and Wear who first asked about my willingness to participate in this conference. George is a wonderful and gracious friend and I have learned a great deal from him through our participation in the Transatlantic Community Foundation Network. In addition, I want to thank Marion Webster and Sue Brown for helping me with the challenging logistics of this trip. Last, and certainly not least, I want to acknowledge the presence of my wife, Jacqueline Copeland-Carson, Ph.D. Jackie is an accomplished grantmaker in her own right and it is very special to have her here with me.

Now at least one person here, other than my wife, is wondering what could an American possibly know or say about the United Kingdom? The answer is not much. I want to confess at the outset that I know very little about when to properly refer to England, Great Britain or the United Kingdom. I also freely admit that, like most Americans, the little that I think I know is probably wrong. I do, however, know a lot about community foundations playing a leadership role in their communities. I'm at home at any conference of community foundations that is interested in making waves to make a difference in people's lives. In addition, my experiences in helping to support foundations and associations of nongovernmental organizations worldwide while a program officer at the Ford Foundation allowed me to develop a special appreciation for community foundations. And, in my current role as CEO of one of the oldest community foundations in the U.S. that has somewhat of a reputation for making waves, I believe I have a few ideas to share.

I want to talk about three things today. First, I want to discuss what business we are in as community foundations and who is our customer.² I am going to suggest that these two questions are essential for every community foundation to answer. I want to talk about how American community foundations have struggled with this question of identity and, in so doing, helped to create confusion in the community foundation movement worldwide. Second, I want to talk about the importance of what community foundations decide to measure. I have come to believe that institutions measure and track what they think is important and, over time, those same measurements define their existence – who they are, what they are, and who they stand for. Third, I want to explore and expose the myths that suggest community foundations need to have significant endowments before they can play a leadership role on critical issues confronting their

communities. On the contrary, I am going to suggest that community foundations that take on leadership roles are more likely - not less likely - to see their endowments increase.

In the spirit of full disclosure, you should know that I am not indifferent to the answers to these questions. It is my firm belief that our field would greatly benefit from the same kind of healthy discussion of ideas that is considered routine in the fields of science, medicine and the law, among others. Without the debate and interchange of ideas, our field will either become stagnant or fall victim to every passing fad or whimsy. The long-term health and vitality of our field will depend on our ability to honestly discuss the implications of different approaches for the continued growth and character of community foundations. Such debate is the sign of a healthy and mature field. I say all of this because some of what I say might be troubling and I want you to know that I offer my observations in the spirit of strengthening the community foundation movement worldwide.

What is the Business of Community Foundations?

In a 1975 *Harvard Business Review* article that has been widely cited, “Marketing Myopia,” Theodore Levitt wrote:

The railroads did not stop growing because the need for passenger and freight transportation declined. ... They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business. The reason they defined their industry incorrectly was that they were railroad-oriented instead of transportation-oriented; they were product-oriented instead of customer-oriented.³

This question of what is the business of community foundations is at the heart of the debate between two schools of thought about whether community foundations should be community-focused or donor-focused. For community-focused community foundations, the end goal is to raise unrestricted assets that can be directed by a representative board of community leaders for the purpose of addressing the community’s common aspirations and problems. For donor-focused community foundations, a term developed by its proponents, fulfilling the charitable interests of individual donors is the most important consideration. Contrary to what some have suggested, this is not a matter of semantics but rather a point of critical difference.

Community-focused community foundations are in the business of building community. They are interested in building social capital that can be used to address common community problems. Donor funds are a vehicle that allows them to establish a relationship with a donor that they can influence for the common good today in the hope that such relationship building will result in an unrestricted gift, often through a bequest, in the future. In business terms, the donor advised fund is a loss leader for the purposes of establishing a more fruitful relationship that will continue in perpetuity. For the community-focused community foundation, donor advised funds are a means to an end.

For donor-focused community foundations, the end goal is to acquire individual donor funds and accumulate financial capital. Such institutions view fulfilling the charitable intent of each donor as a net good for the community and perceive its primary

role as facilitating each donor's individual charitable interests. Proponents of this approach are correct to suggest that any given community is better off when more donors have been encouraged to engage in philanthropy. The problem is that donor-focused community foundations are less likely to engage in efforts that help a community identify and address their common problems. The reality is that the more controversial the community issue is, the more likely it is to be avoided by a donor-focused community foundation. It is one thing to be associated with making waves because you are following the wishes of an individual donor. It is quite different to make waves because the board of the community foundation has taken a public stand on a controversial community issue.

What created some dissension in the U.S. is my continuing belief that donor-focused community foundations and the commercial donor advised funds of banks and financial institutions are essentially cut from the same cloth.⁴ If the primary purpose of a donor-focused community foundation is to raise assets without regard to serving the community's collective interests, then the more cost-effective commercial funds probably will, and should, replace donor-focused community foundations. I recognize that the U.S. may be the only country in the world that allows for-profit banks and financial institutions to offer tax-deductible donor advised funds in competition with nongovernmental organizations such as community foundations. However, this relationship is key to understanding why the idea of donor-focused community foundations so quickly gained interest in the U.S. and why the same idea was met with such strong resistance in other parts of the world.

Under normal conditions, it takes several decades for a community-focused community foundation to accumulate significant unrestricted assets. For those who have the task of growing the community foundation in its first 20-30 years of life, they are cultivating a crop that they are unlikely to ever see harvested. In the context of the robust U.S. economic market of the 1990s, the donor-focused approach offered the hope of accumulating assets at a much faster pace, but this came at a cost. Institutions that adopted this approach moved away from a focus on community leadership for the common good.

What had helped to originally create the worldwide interest in the community foundation concept was the idea of a foundation governed by a board representative of community interests with influence and financial resources that could be directed to address the community's collective problems. For proponents of the community-focused model, the donor-focused approach was problematic for both philosophical and practical reasons when promoted abroad through international exchange programs such as the Transatlantic Community Foundation Network, Synergos' Senior Fellows Program and the German Marshall Fund's Transatlantic Fellowship, among others. Philosophically, the donor-focused approach presented problems because of its focus on the charitable interests of a community's wealthy elite with little focus on the common good. This was not the primary appeal for those advocating the community-focused approach in poor communities.

On the practical level, the donor-focused model assumes that there are enough wealthy individuals in the community to sustain a donor-focused community foundation. In various communities in countries throughout South America, Eastern Europe, Africa and the United States, there is simply no wealthy elite to rely on. As a result, the donor-

focused model left many advocates of community foundations in these countries either feeling that they had been misled about the purpose of a community foundation or feeling that they are involved in a fruitless exercise because they have insufficient wealth in their communities. What heightened their frustration was the fixation on asset size as the single barometer of success.

We Value What We Measure

Without question, for community foundations in the U.S., asset size has been the single most important measurement of success. Inquiring about a community foundation's asset size was, at first, an understandable way for those in the community foundation field to assess how far a community foundation had traveled on its journey to build unrestricted assets. Over time, it was this single-minded focus on asset growth that helped create the enabling environment for the idea of donor-focused community foundations to flourish.

An unprecedented economic boom in the 1990s fueled enormous interest in the donor-focused approach. Double-digit investment returns coupled with stories of a new dot-com economy in which it seemed that every twenty-something was becoming a multi-millionaire overnight helped create a gold-rush mentality whereby every community foundation saw an opportunity to increase its assets in a shortened time frame. In part, this was the same market opportunity that encouraged U.S. banking and financial institutions to think that offering donor-advised funds would be a profitable business line. Many community foundations viewed the millions contributed to commercial donor-advised funds as assets that should have been theirs. As a response, the donor-focused approach gained widespread acceptance. Community foundations that made this transition, perhaps without realizing it, moved out of the community building business and into the asset accumulation business.

The donor-focused approach has had some positive benefits for the community foundation movement. It encouraged the entire U.S. community foundation field to pay much greater attention to the importance of customer service, investment options and returns, and internet access to donor account information. The need for these services spurred much needed conversations about how community foundations might work more closely together than they ever had before. Unfortunately, strictly donor-focused community foundations will never be able to compete with their commercial look alikes.

Financial institutions are not bound by geography, have considerable resources with which to continually upgrade their technology, and will always be able to offer more investment options than community foundations. In contrast, community focused community foundations offer a distinct alternative to commercial donor-advised funds and donor-focused community foundations. Their endgame is to help residents realize and address their common interests. It is not only a harder product to sell; it is a fundamentally different product.

One of the market realities that the community foundation field has failed to appreciate is that every potential donor may not be an appropriate donor. Last year, my wife and I spent five days at a remote fishing village in Alaska. Each day, a relatively small number of boats would leave the fishing village and head out into the vast ocean. Inevitably, a few boats would end up in the same vicinity. Our boat would occasionally

watch with envy as we saw another boat catch fish after fish a short distance away. After a few minutes, different boats would inch closer to the one that was having a good catch in an effort to enjoy its bounty. We all acted as if the fish that they caught should have been our fish. Unfortunately, as the boats drew closer, one could see that the various boats were after different types of fish by the different fishing rods, line, lures, weights and bait that were being used.

There is a lesson in this for community foundations whether they are community-focused or donor-focused. Community foundations of all types must outgrow the naïve notion that every donor should be their donor. For community-focused community foundations, not every donor will be attracted to its efforts to support the common good. Not every donor will support its leadership role on controversial issues. For those donors who are not interested in community transformation, the transactional nature of donor-focused community foundations or commercial gift funds may be entirely appropriate. Also, community foundations may need to recognize that donors may use a variety of competing charitable vehicles to achieve different goals or simply to diversify their charitable portfolio.⁵

The other major issue to be addressed is that community foundations desperately need measures other than asset size and number of new gifts raised. While these are useful measures for any community foundation, they do not speak to how well the community foundation is addressing the common good. Benchmarks for measuring the community-focused approach might include: convening diverse segments and interests in the community around critical issues, risk-taking in grantmaking to change existing power relationships and using the community foundation's public voice. While these benchmarks are more difficult to explain and measure than asset growth, they offer far more insight into a community foundation's efforts to make a tangible difference in their communities. For the moment, the interest in the donor-focused model seems to have dissipated. The dot-com bust coupled with the prolonged investment decline has meant that, as in developing economies, there are fewer wealthy individuals for the model to work.

Community Foundations As Social Champions

There are a number of myths that permeate the community foundation field about the relationship between fundraising and taking an active leadership role on community issues. Community foundations have multiple tools through which to influence community issues including grantmaking, convening and using their public voice. In assuming this leadership role, community foundations will often find the need to engage in social justice grantmaking. The term social justice grantmaking is defined here as the efforts of foundations to change the current power relationships that exist between citizens and their relationship to government, business and the nonprofit sectors. Social justice grantmaking attempts to improve how the society provides equal access to opportunities for all citizens and ensures a minimum quality of life for all.

One myth that is often stated is that a community foundation needs to accumulate significant endowment assets before it can engage in challenging leadership roles or social justice grantmaking. Convening diverse community members around challenging issues facing the community is one of the most important tools that a community

foundation possesses. Such activity does not require significant resources; however, it does require the will to bring the public's attention to bear on such sensitive issues as racism, sexism, homophobia or education, health or housing disparities, among other issues. It also requires that the community foundation reflect the full diversity of the community it seeks to serve. Moreover, I would observe that U.S. community foundations with larger assets have not necessarily shown themselves to be more willing to take leadership roles in their communities than those with fewer assets. In fact, the opposite may be true.

Another myth that is often mentioned is that foundations should be neutral institutions and therefore should not engage in social justice grantmaking. There is a difference in being neutral and being neutered. Every time the community foundation makes an unrestricted grant, the community foundation is expressing a value judgment. Through its grants, every foundation is declaring that a problem exists and it is endorsing a particular strategy for correcting the problem. The community foundation is not neutral to identifying problems that affect the community's common good nor is it prevented from supporting multiple strategies.

The Minneapolis Foundation, for example, has identified affordable housing as a major issue facing our community. We have supported the development of new affordable housing units, a statewide public information campaign on homelessness, created a statewide coalition of housing advocates to lobby the state legislature, supported the development of housing units by various housing development organizations and supported an innovative effort to create a land trust to keep housing affordable. We pursue all of these different approaches because we do not know which strategy or combination of strategies is likely to bear fruit.

Perhaps the biggest myth that exists is that community foundations that take on public leadership roles will find it difficult to raise funds. Underlying this myth is the fear that a community's wealthy elite is more likely to support maintaining the status quo with its existing power relationships rather than efforts to change it. Because of this, many community foundations believe they should avoid taking leadership roles on difficult issues. The reality, however, is quite different. There is strong research to suggest that community foundations are more likely - not less likely - to increase their fund development by engaging in leadership efforts.

In 1987, the Ford Foundation, with subsequent support from the John D. and Catherine T. MacArthur Foundation, established the Leadership Program for community foundations.⁶ The program's dual objectives were to encourage the community foundations to exercise local leadership on important community issues and to raise unrestricted endowment assets. Over the next several years, 27 community foundations with assets below \$13 million were required to identify a critical community issue for which they would provide leadership. They also agreed to raise \$1 million in two years as unrestricted or field-of-interest endowment in order to receive a matching grant of \$500,000 that could be immediately expended in grants on the community issue that they had selected.

The results were no less than amazing. All of the participating community foundations were able to increase their unrestricted financial resources by focusing on a leadership issue in their community. In addition, by taking on a leadership role, the community foundations that participated in the Leadership Program reported that their

boards and staffs became more effective, the community foundation gained greater recognition and visibility in their own communities and, as their knowledge of community issues grew, their overall grantmaking improved. Several of the community foundations raised the \$1 million in one year and others raised more than this amount. This also has been the experience of The Minneapolis Foundation – community leadership increases the effectiveness of fund development and further develops grantmaking expertise.

Conclusion

The Community Foundation Network has an important role to play in helping to shape the worldwide community foundation movement. Our field needs you to take the message of this conference, Making Waves, and have it reverberate around the world. If you accept this responsibility, I believe you will find a long line of willing allies. Community-focused community foundations are special institutions within their communities. When we see our role as catalysts, bringing diverse segments of the community together for the common good, building social capital, we will not only see our communities thrive, we also are more likely to see our endowment assets increase. The choice is ours and our communities are desperately awaiting an affirmative answer.

Endnotes

¹ Dr. Carson is president and CEO of The Minneapolis Foundation.

² Peter Drucker, an international management expert, has stated that every non-governmental organization has to be able to answer five questions. What is the nonprofit's business? Who is the nonprofit's customer? What does the nonprofit's customer consider value? How does the nonprofit define results? What is the nonprofit's plan?

³ Theodore Levitt, Marketing Myopia, *Harvard Business Review*, September-October 1975, pp. 2-13.

⁴ Emmett D. Carson, "A Crisis of Identity for Community Foundations," *The State Philanthropy 2002* (Washington, DC: National Center for Responsive Philanthropy, 2002), pp. 7-11.

⁵ Lucy Bernholz, *The Industry of Philanthropy: Highlights from Key Industry Analyses*, Highlights from Blueprint's publications 1999-2002 (San Francisco, CA: July 2002).

⁶ Steven E. Mayer, *Building Community Capacity: The Potential of Community Foundations* (Minneapolis, MN: Rainbow Research, Inc., 1994).