

STANDARDS FOR COMMUNITY FOUNDATIONS: CHALLENGES AND LESSONS LEARNED

by Karin E. Tice, Ph.D.

Introduction

Community foundations nationwide are talking about the importance of operational standards. With the growing emphasis on professionalism, marketing, competition, and ethics, and the need for a unified national voice, the time has come for the community foundation field to consider self-evaluation and self-regulation. In 2000 the Community Foundation Leadership Team of the Council on Foundations (COF) approved performance standards and the community foundation field accepted those standards at the 2000 Fall Conference for Community Foundations in Milwaukee.

The Standards Implementation Committee, a task force of the Standards Action Team, met in May 2001. Committee Chairperson Jennifer Leonard stated, "The focus of this committee is on developing an approach to implement standards in a way that matches our culture, is sensitive to the growth of the field, and is helpful in dealing with competition from other sectors. There is tremendous diversity in the community foundation field, even among those community foundations that are members of COF, and we must

seek recommendations that are inclusive."

The purpose of this article is to share benefits, challenges and lessons learned related to developing and implementing a set of minimum operating standards for Michigan community foundations and their affiliates. Information presented in this article is based on two years of evaluation research conducted by Formative Evaluation Research Associates (FERA) an independent evaluation firm that consults for the Council of Michigan Foundations (CMF).

Data collection methods used included: surveys and telephone interviews with community foundation executive directors and board members; participant observation in meetings of community foundation staff and board members during which standards were discussed; and interviews with CMF staff. Standards-related data collection has

been part of a much larger effort (1991 to the present) to evaluate the development of community foundations in Michigan and to share what has been learned. It is hoped that the experiences, findings and lessons

learned presented here will provide useful information for national and local discussions on standards.

The information is presented as follows:

- Background information about how standards were developed in Michigan
- How standards can benefit community foundations
- Experiences of community foundations during implementation of standards
- Challenges to implementing standards
- Lessons learned
- Conclusions
- COF standards.

Background

In 1999, while researching opportunities for statewide marketing, Michigan community foundations began a process of assessing their relationship to each other and defining their future direction with the help of a marketing/communications firm, Williams Group. Michigan community foundations decided their relationship was a “*loose confederation*”: friendly, independent organizations, sharing a common purpose and legal status, affiliated through their local regional association of grant-makers, CMF, with policy, philosophy and decision-making authority remaining at the local community foundation.” They realized that **each** community foundation could benefit by leveraging their **collective** strength.

Five underlying assumptions were identified as keys to leveraging the collective strength of community foundations:

1) Community foundations need a stronger presence: community foundations operate in a changing environment in which a growing range of philanthropic choices are available. To help ensure that prospective donors make informed decisions, community foundations need a stronger market presence. In short, they need to be **known** before they can be considered a **viable option**.

2) A stronger presence requires that community foundations promote their affiliation: creating a strong market presence for community foundations requires coming together as a field under a common affiliation that can be communicated. In essence, they need a “brand” or shared identity.

3) Promoting affiliation creates risk: building awareness through a shared identity creates an expectation that each community foundation represents the same “promise” of performance. This is a good thing, as long as it is true. **All** community foundations can be injured by the performance shortcomings of **any** one community foundation.

4) Managing risk requires consistent performance: risk is reduced when quality performance is sustained among all.

5) Consistent performance requires standards: to ensure expected performance, minimum standards must be adopted prior to participation in statewide marketing initiatives or other collective activities of the Michigan community foundation field.

Sub-committees comprised of community foundation trustees and staff, facilitated by CMF, developed standards. There are minimum standards for the following areas: governance; administration and finance; asset development; grantmaking; role as convenor and leader; and communications. A community foundation trustee commented, “We are guardians of community resources. We have a reputation to uphold in our community. Standards are useful so we can do the best job we can do and become better at what we do.”

Michigan standards are complementary to the standards developed by COF that blend standards and best practices. Because Michigan community foundations were promoting their affiliation through a shared identity,

one standard—the requirement of “community” in the name of the organization—is unique to Michigan. Dorothy M. Reynolds, CMF consultant and former President of the Community Foundation of Greater Flint, observed, “This was an agonizing issue for some of these foundations, as they had flourished for generations and were understandably concerned about changing their identities. Ultimately, all adopted the recommendation.” Also, Michigan’s minimum standards are in addition to the requirements of state and federal law. Michigan community foundations are expected to meet national standards adopted by COF.

Community foundations had an incentive to rapidly implement standards. Compliance with standards was required before they could participate in the Outreach to Professional Advisors Campaign in October 2000. This meant they would have access to marketing tools that could be used locally, as well as a listing as a community foundation in compliance with standards on the statewide “**For good. For ever.**” website (www.forgoodforever.org) referenced in all the state-wide advertisements.

CMF provided technical assistance to help them meet standards, including on-site consulting, web-based documents and the *Building Foundations: A Marketing Planning* series. In addition, useful documents with background about why it is important to have a particular policy, key questions to consider, and relevant issues to think about were posted on the web site (www.cmif.org/standards.htm).

This developmental focus on building the capacity of community foundations through compliance with minimum standards placed high emphasis on the community foundation trustee; the end result being trustees who were knowledgeable of, and had buy-in to, their community foundation's policies and guidelines. "Having

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to think through the issues was the right way to do it. It added value because we understood every line of every policy. This process was very useful to our board," stated a trustee. The implementation process was also interactive and respectful of the diversity in community foundation size and locale, allowing options to be

customized to fit local environments and organizational cultures.

By September 2000 (a nine-month period) a total of 41 community foundations in Michigan had met standards. Community foundations not in compliance with standards receive technical assistance and training opportunities with the expectation that all Michigan community foundations will meet standards. The minutes from a Board of Trustees meeting recording a Board resolution that the community foundation is in compliance with minimum standards serve as documentation.

Benefits

Community foundations benefit in many ways from compliance with minimum standards. These benefits include: increased credibility, accountability, confidence and professional image, board knowledge about the community foundation roles, and clarification of policies. Executive directors and trustees were asked in a survey to describe these benefits. They said meeting standards:

For Staff:

- ❖ "Gave us the opportunity to take a 'hard and fast' look at ourselves. We actually discovered that we have been on target already so we did not need to make a lot of changes to meet standards. That is a good feeling. I feel that Board involvement with standards was also very helpful in keeping our board 'connected.' They too had to buy in to making sure that we were on task."

- ❖ "Is a motivating tool to improve our foundation and provides a guideline and a discipline to conducting our business."

- ❖ "Gave our board & staff a good review of where we were and what needed to be updated or added."

- ❖ "Increased the staff's understanding of standards and how they apply to our foundation, and most importantly, why it is important to have standards in the community foundation field."

- ❖ "Provide an executive director with a roadmap to excellence and donor accountability. Because the size of the charitable pie is growing, attention is increasingly focusing on nonprofits in general and community foundations in particular. Adherence to 'field approved' standards is good insurance."

For Trustees:

- ❖ "Was also very helpful in keeping our board 'connected.' They too had to buy in to make sure that we were on task."

- ❖ "Forced our board to look at issues they have avoided such as

written policies for conflict of interest and spending policies."

- ❖ "Has been a significant benefit to us. We are much more focused on our image and its impact. We now have a more professional image."

- ❖ "Helped the board better grasp the broad functions of the community foundation. In a meeting with United Way representatives, one of my board members told how, over the past two years, he has come to understand that the community foundation is so much more than just a grantmaker. He talked about the community foundation as a convenor, public steward of community assets etc. I believe the process to meet standards really opened his eyes."

- ❖ "Raised suspicion among trustees and caused heated discussion, but once we agreed, there was an even stronger buy-in by our trustees to make the foundation the best it could be."

For Donors and the Community:

❖ Provides assurance that you can confidently defend your policies and procedures if someone accuses you publicly or privately of mismanagement.

❖ “Provides a safeguard if/when a donor wants you to do something that you know is not ethical or legal.”

❖ “Gives me confidence that when I refer people to other community foundations, they will be able to deliver services in a professional manner.”

❖ “Provides helpful internal measurement tools and promotes the integrity and credibility of the Foundation to advisors and donors alike. Completing standards sets your organizations apart from those that cannot or will not meet the requirements.”

Implementing Standards

Community foundations experienced the process of implementing standards in different ways. Regardless of size, there was work to be done. Small community foundations with few staff, whose boards were resistant, had the most difficult time implementing standards. Executive directors were interviewed about their experiences implementing standards. Representative stories of the different experiences follow.

A new community foundation (with less than \$1 million in assets) executive director commented, “Our board was enthusiastic. Our biggest challenge was finding the necessary board time to talk about everything that needed discussing. We are fairly new, had a lot already in place and had very little to change. It was not as hard as I thought it would be.”

A small foundation (less than \$5 million in assets) executive director asked for an outside experienced community foundation practitioner to address her board’s concerns and fears. She said, “When they [the board] understood the greater good and the benefits to our foundation from meeting standards, they agreed to move forward.”

The executive director of another **small** community foundation (less than \$10 million in assets) said, “Implementing standards was one of the most difficult jobs I have faced. I was supportive of standards and we had most of the policies in place but it was hard to bring my board along. Some board members reacted strongly against standards, having very little information about what they were and why they were important. Their concerns were they did not want someone from the outside telling us what to do. Some were also fearful that it would be ‘a foot in the door to more and more regulations.’ I met one on one with these two individuals. At the final meeting they did not say a word. Our board voted to accept and work toward meeting standards.”

A mid-sized (\$20 million+ in assets) community foundation executive director explained, “We did not encounter any obstacles to meeting standards. We were already in compliance, but it forced us to

update and formalize our gift acceptance policies and procedures for our community leadership role.

We also discussed, but decided against, a name change to better reflect our service area. Having standards for the field was the next logical step, and we appreciate having them.”

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Another **mid-sized** community foundation executive director had a different experience. “We had all the core pieces done, but they were not written and polished. We underestimated the amount of work it would take to formalize all the needed policies. There was a lot of moaning and groaning, but now that the work is done we are very proud that we are as good as the big guys.”

One **large** (over \$100 million in assets) community foundation executive director explained that “adding the word ‘community’ to our name was the most challenging aspect of the standards process. Early on, we were concerned that our donors and other individuals in [our commu-

nity] would not accept the change. Through focus groups and board discussions, we worked through this most important issue. We positioned

the fact that we were adding the word 'community' to our name as a way to demonstrate that the Foundation was here to serve the entire community. We

received very few complaints and feel our effort was successful.”

Challenges

Three key challenges were encountered to implementing operational standards: 1) convincing boards that standards are necessary; 2) reprioritizing and finding the time required to implement standards; and 3) developing the capacity of small community foundations (under \$20 million). Each of these challenges is further described below:

❖ **Convincing boards that standards are necessary.** It took a great deal of effort to convince some community foundation board members that standards were important and beneficial to their work, as noted by this Trustee, “I was skeptical going into this process. So was the rest of the board. Understanding how standards fit into the bigger picture was key for us. Now 100% of the board says it has been an excellent process. Standards are something we should have had all along.” In a few cases individual board members were taken to lunch because they were the only ones who were adverse to standards. For those boards with additional concerns, CMF staff and consultants attended their meetings, shared information, engaged in dialogue and answered questions. One executive director commented, “Initially our Board was suspicious of standards and worried that it would lead to industry control and our loss of local control.”

❖ **Reprioritizing and finding the extra time needed to implement standards.** Small community

foundations (under \$20 million) with part-time staff had to refocus activities to make compliance with standards a high priority. With limited staff time and a volunteer board that meet monthly or quarterly, some community foundations had to revamp their strategic plan, alter fund development activities and in some cases postpone a grantmaking cycle in order to devote the appropriate time and energy to standards compliance.

Two executive directors shared comments related to the challenge of finding time:

- We had to balance the process of meeting standards while keeping up with day-to-day activities. However, once the standards were met, day-to-day decisions were backed up by the policies/standards. Standards give us a good sense of direction.
- It may take a long time for your board to come to address all the issues and changes involved. However, once they have, they will be a stronger and more involved Board. Whatever your expectation in terms of time to completion is, multiply it by four.

Standards give us a good sense of direction.

❖ **Developing capacity of small community foundations.** Small community foundations (under \$20 million) had a great deal of work to do in order to meet standards. Resource documents and tools were made available through the CMF web site (www.cmif.org/standards.htm) to encourage easy access and cost effective dissemination of information. An experienced practitioner was available for on-site and telephone consultations to help develop policies and guidelines that best met the individual community foundation needs. Dorothy Reynolds served as that experience practitioner and noted, “In my work with these organizations, I felt that the most important single ingredient was involvement of members of their boards. Community foundations are not like other nonprofit organizations and their successful governance involves thorough understanding of the differences.”

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Lessons Learned

Engaging in a process to develop and implement standards resulted in many lessons learned. Several of the key lessons are:

❖ **Overall, community foundations welcomed standards.** Most community foundation staff and board members were supportive about having standards. Standards were recognized as valuable. Community foundations worked hard to implement standards within a very short timeframe.

❖ **Standards, marketing and identity must be linked.** Implementing shared standards is vital if community foundations are to successfully engage in shared marketing and a common identity. Community foundations have to be able to

consistently deliver what is being promised or “marketed” to the public. When community foundations work together, risk is reduced when all operate according to the agreed upon standards. Staff and trustees/board members all need to understand the connections between marketing, a common identity and standards.

❖ **Offering an incentive helps.** Linking compliance with standards to participation in the Outreach to Professional Advisors Campaign was a successful strategy. It provided an incentive for community foundations to comply with standards. Consultant Reynolds observed, “Provision of this material whetted the appetite of the majority of the foundations, and motivated many to stretch and attain the standards of operation that were developed.”

❖ **Promote understanding by providing background materials.**

Community foundations were provided with position papers that raised key discussion questions and laid out the issues related to each standard’s topic area. While boards were challenged in developing policies, they understood the issues behind each standard and “owned” the decisions they made.

Again, Ms. Reynolds observed, “As we worked with the community foundations throughout the State, we found it was much more effective to provide background materials and identify issues that the foundations must address than to do their work for them. This provided a framework for discussion, with the result that the policy makers in the individual foundations developed a much higher level of understanding of the issues involved.”

Conclusions

Standards can benefit community foundations by enhancing their credibility and fostering accountability as trustworthy organizations that serve their communities as financial stewards and leaders. Standards reassure community foundations and their donors that they have good operating practices. One executive director commented, “It is marvelous that we have standards...they will serve us well.”

It is critical that the staff and boards of community foundation understand the importance and benefits of standards and have the opportunity for input into implementation. This feedback loop is an important part of developing ownership of the standards at the local level. Consultant Reynolds concluded, “Because the Michigan process required the sign-off by boards concerning compliance with the standards, it forced the adoption

of critical policies and practices, and will—in the long run—assure the sound base on which these organizations stand.” While regional associations of grantmakers can play a vital role in facilitating implementation of standards, it is important that community foundations have ownership of the standards and the processes used to implement them.

Technical assistance is vital, especially for community foundations with less than \$20 million in assets. The technical assistance needs to focus on the major themes of the national standards as set forth below. In addition, having a senior traveling consultant (a past community foundation executive director) who could talk to community foundation staff and boards about any issue their foundation was struggling with, was helpful. Regional associations can play an important role by: 1) providing learning and training opportunities;

2) making resources and information easily accessible; and 3) serving as facilitators of the standards implementation process.

Finally, some words of advice from community foundation executive directors who have completed the implementation process, to their colleagues elsewhere.

❖ **Do it!** It was a challenge initially getting to an agreement for the field. Now that we’ve done it, it only has benefits. It just makes so much more sense to self-regulate and to work together.

❖ If you have any doubt about implementing standards, I can assure you **it is worth it.**

❖ No matter how difficult the process, **you will be glad you did it.**

National Standards for U.S. Community Foundations

Definition of a U.S. Community Foundation

A community foundation is a tax-exempt, nonprofit, autonomous, publicly supported, non-sectarian philanthropic institution with a long term goal of building permanent, named component funds established by many separate donors for the broad-based charitable benefit of the residents of a defined geographic area, typically no larger than a state.

Community foundations are further defined by the following characteristics:

Mission, Structure and Governance

•A community foundation is founded and operated for public benefit and has a well-defined, articulated mission.

•A community foundation is recognized by the Internal Revenue Service as tax-exempt under Internal Revenue Code Section 501(c)(3), organized and operated exclusively for charitable purposes.

•A community foundation meets the public support test set forth in Internal Revenue Code Section 170(b)(1)(A)(vi) as modified by Treasury Regulation Section 170A-9(e)(10).

•A community foundation has an independent governing body broadly representative of the community it serves.

•A community foundation’s governing body retains variance power by which it may modify any restriction or condition on the distribution and investment of assets, if circumstances warrant.

•A community foundation serves a particular geographic area such as a municipality, county, state, metropolitan area or closely related aggregation of such areas that are considered for some purposes as a community, typically no larger than one state. An organization serving a single greater metropolitan area would satisfy this criterion even if that greater metropolitan area included parts of several states. This criterion excludes national and multi-national organizations.

•A community foundation’s governing body:

~ is responsible for the mission, direction and policies of the organization.

~ ensures adequate human and financial resources and actively monitors and evaluates the organization’s chief executive officer.

- ~ approves policies to prevent perceived, potential or actual conflicts of interest.
- ~ serves without compensation (exclusive of the chief executive officer.)
- ~ is not controlled by any other nonprofit organization, or by any single family, business or governmental entity or any narrow group within the community.
- ~ reviews and adopts an annual operating budget.
- ~ ensures that the governing documents include policies for size of the board, required number of meetings annually, limits of members' terms, and structure and responsibilities of standing committees.
- ~ ensures that the community foundation reflects the diversity of the community it serves.
- ~ ensures that the community foundation meets all laws and legal requirements.
- ~ approves all grants.

Resource Development

- A community foundation has, or works to develop, broad support in the form of contributions from many separate, unrelated donors with diverse charitable interests in the community served by the community foundation.
- Contributions to a community foundation represent irrevocable gifts subject to the legal and fiduciary control of the community foundation's governing body.
- A community foundation has a long-term goal of securing resources to address the changing needs of the community it serves.
- A community foundation accepts and administers a diversity of gift and fund types to meet the varied philanthropic objectives of donors.
- A community foundation adopts gift and fund acceptance policies that address minimum fund size, types of fund options, types of gift mechanisms, and policies and procedures for accepting various types of assets, and makes these policies available upon request.

- During the gift planning process, the role and relationships of all parties involved are fully disclosed to the donor.

Stewardship and Accountability

- A community foundation is a steward of charitable funds, investing and prudently managing funds and maintaining accurate financial records.
- A community foundation is accountable to the community it serves and regularly disseminates information on its programs and finances.
- A community foundation maintains a written record of the terms and conditions of each component fund and all such records must reference the variance power.
- A community foundation honors the charitable intentions of its donors consistent with community needs and applicable laws and regulations.
- A community foundation observes the balance between donor involvement and governing board control and complies with applicable laws and regulations.
- A community foundation ensures that the foundation's financial resources are used solely in furtherance of its mission.
- An annual audit (financial review when assets total less than \$1 million) is performed by an independent public accountant, reviewed and accepted by the governing body and made available to the public upon request.
- A community foundation
 - ~ has investment policies that include asset allocation guidelines, a spending policy and criteria for measuring investment performance.
 - ~ makes available to the public upon request the names of its investment managers, fees charged (including investment and administrative fees), governing body or appointees responsible for investment oversight and investment.

Grantmaking and Leadership

- A community foundation operates a broad grants program to multiple grantees that is limited neither by a single focus or cause nor exclusively to the interests of a particular constituency.
- A community foundation awards some grants from its discretionary resources through open, competitive processes that address the changing needs of the community.
- A community foundation widely disseminates grant guidelines to ensure the fullest possible participation from the community it serves.
- A community foundation performs due diligence to ensure that grants will be used for charitable purposes.
- A community foundation works to identify community issues and opportunities and acts as a leader and convenor, using its human and/or financial resources to address immediate and long term community issues and opportunities.

Donor Relations

- A community foundation informs and educates donors about community issues and grantmaking opportunities.
- A community foundation actively involves donors in identifying and responding to community issues and opportunities.
- A community foundation promptly and accurately acknowledges gifts.
- A community foundation provides fund statements, at least annually, to those donors who wish to receive them.
- All private information obtained with respect to donors and prospects is kept confidential to the fullest extent possible.

Communications

- A community foundation communicates openly and welcomes public scrutiny.
- A community foundation has a communication strategy that includes a report, widely distributed at least annually, which describes the community foundation's mission, activities and financial operations.

ABOUT THE AUTHOR

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