SNAPSHOT:

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Regional alliances and small community foundation sustainability

A research project

Conducted by the Council of Michigan Foundations, Blueprint Research & Design, Public Policy Associates, and Williams Group

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Project at a glance

The question. What role do regional alliances play in helping community foundations, especially those with under $20 million in assets, achieve financial sustainability?

The context. The vast majority of U.S. community foundations have under $20 million in total assets. They represent a variety of histories, capacities and activities. Due to their size, members of this group are the most vulnerable to significant change in their marketplace.

The definition. “Alliance” is the commitment of individual community foundation financial resources to collective community foundation activity that is expected to generate benefits, on both an individual and collective scale. “Regional alliance” is a collaboration undertaken by community foundations in adjacent geographies.

The hypothesis. Small community foundations can improve their practices and services, as well as lower costs and/or expand their assets, by forming regional alliances in which they share operational, management or governance structures.

The participants. A total of 34 community foundations (or community foundation divisions/affiliate funds) were involved in five active alliances studied in the summer of 2004. A total of 210 community foundations responded to a survey issued in November 2004. Approximately 50 community foundation staff and board leaders provided informal input at a presentation of initial project findings during the Council on Foundations *Fall Conference for Community Foundations* in October 2004.

This research project finds that regional alliances take multiple forms and, despite inherent challenges and potential pitfalls, are a valuable vehicle for community foundations seeking to minimize operating costs and enhance service quality. In particular, regional alliances can be mission-enhancing investments for small community foundations, strengthening them as individual organizations and, by extension, boosting the impact of the entire community foundation field.

Why collaborative models? Why now?

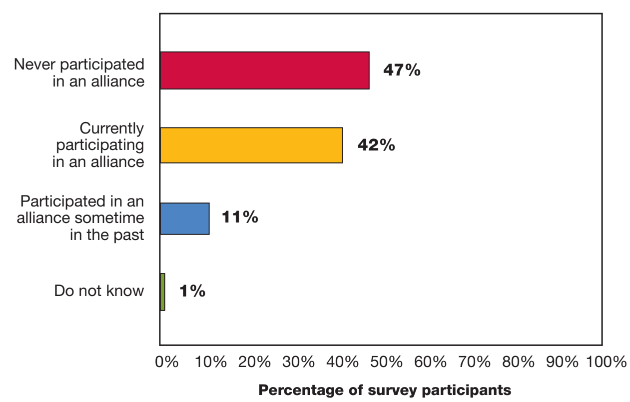
The community foundation field is undergoing enormous growth; seismic shifts in services and competitors; and significant alignment around national standards, joint marketing, and the creation of a sense of affiliation. The last 20 years stand out for the high rate of growth, increased public awareness, and growing degree of new joint action in this field. A deep, valued tradition of community foundation cooperation is being accelerated.

Drivers for this increasing rate of collaboration include perceived common threats in the form of commercial gift funds and the proliferation of online giving sites and information sources—both of which challenge the value of community foundations as intermediary giving channels. A growing awareness of the tenuous financial condition of many community foundations has also prompted collaboration. This condition was both exacerbated and revealed by the nation's stock market and economic declines early in this century; its visibility has been heightened and its precise nature better understood through new financial tools and analysis provided by Foundation Strategy Group.

The movement to adopt national standards both signals and codifies the belief by a majority of individual community foundations that their future is best served through participation in a meaningful collective—a defined field with definitive practices.

Then there are national standards. The relatively rapid movement to adopt standards signals and codifies the belief by individual community foundations that their future is best served through participation in a meaningful collective—a defined field with definitive practices. By mid-2004, 471 of 700 eligible community foundations in the U.S. had submitted letters of intent to comply with *National Standards for U.S. Community Foundations* as published by the Council on Foundations.

While community foundation field members, support organizations, funders and observers believe that alliances are growing and offer significant potential as a force for good—especially among the field's most vulnerable players, community foundations with under $20 million in assets—there is a paucity of current field knowledge in this arena. (One of the most important works to date in this regard is the substantive 2002 study of "Rural Service Structures and Characteristics" by the Community Strategies Group of The Aspen Institute.)



The above chart shows that a majority of the 210 survey research respondents participating in this project were currently (42%) or had previously (11%) participated in an alliance with other community foundations.

Five cases in point

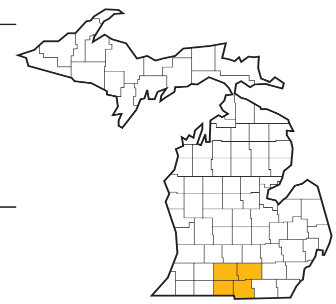
The research team identified five cases to investigate deeply—through site visits, financial data analysis, and interviews. Each represented a distinct alliance model; all demonstrated gains through their work.

Summary of results for participants in five sites studied.

Site	Services shared	Savings experienced	Capacity expanded	Evidence of standards met	Other benefits
Southwest Michigan Alliance	Accounting, investing, auditing, FIMS (Financial Information Management System)	Lower audit cost Lower investment fees	Raised control and quality of services Achieved common, high level of data accuracy and maintenance	Shared templates and standards for quality work National standards “intent to comply”	Growth in number of local FIMS-trained professionals
Community Foundation of the Upper Peninsula (Michigan)	Consolidated back-office, including accounting, investing, auditing, FIMS	Lower audit expense Reduced investment fees Lower operating expense	Pooled scarce resources for greater back-room functionality Increased time spent by local staff on asset growth and grantmaking Improved reporting timeliness, accuracy and consistency Enhanced trust and disclosure	Shared protocols and documents National standards “intent to comply”	Alliance expanding to include and/or serve new community foundations in region Building collective trust and regional mindset Endowment growth accelerated
Community Foundation Alliance (Indiana)	Centrally managed back-office, marketing, development, grantmaking functions	Reduced administrative costs Lower audit costs Reduced investment costs	Created higher quality of investment and other services Expanded philanthropic services in region	National standards “intent to comply”	Significant funds raised in region A coordinated regional voice attracts outside funding
Humboldt Area Foundation (California)	Central administration, governance, marketing and program support	Low administrative and staff cost	Created local infrastructure for community philanthropy Increased time/energy for local asset and community development	National standards “intent to comply”	Mentoring of emerging community leaders and organizations Regional scope and relationships advance regional agenda New local donors attracted by community-based affiliate funds
New Hampshire Charitable Foundation	Central administration, governance, marketing and program support	Low or no local office cost	Allowed local staff to work on asset development and specific local needs Attracted national funder investment in local capacity	National standards “intent to comply”	Rapid growth of local funds Broad engagement and increased number of people involved in community philanthropy

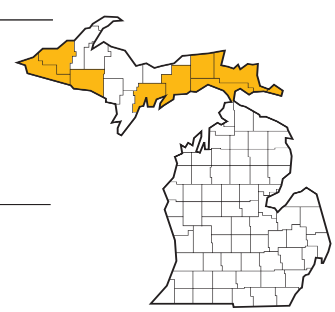
Southwest Michigan Alliance. Seven community foundations came together to form this alliance primarily to find a cost-effective way for smaller members to make use of Financial Information Management System (FIMS), the most common financial package for community foundations. The alliance is structured as a series of contracts managed by Battle Creek Community Foundation, the largest participant. This collective has found that the costs of accounting services, especially now that partners are working from reliable financial data, can be shared across organizations without compromising quality, integrity or privacy. Initial investment, however, was greater than expected and unequally shared. Battle Creek Community Foundation knowingly subsidized its partners' work as an investment in the strength of the region's community foundation network.

Age	*6 years*
Focus	*Shared accounting, investing, auditing and FIMS*
Scope	*4 counties*
Participants	*7 community foundations*
Asset size	*$3M to over $80M*
Geography	*Urban and rural*



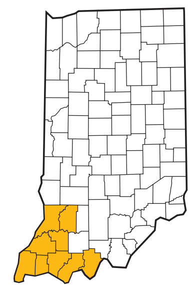
Community Foundation of the Upper Peninsula (Michigan). Nine community foundations in Michigan's Upper Peninsula decided to pool their resources in order to effectively serve this vast rural area with relatively scarce wealth. In the past, each local affiliate struggled to build truly local resources capable of attracting the high-level leadership necessary to manage a community foundation. Today, the group centralizes a great deal of its back-office operations such as auditing, IRS form 990 completion, FIMS, staff training, grant proposals and administration, printing and graphics, and payroll and benefits administration. Collective work is overseen by a 12-person board that includes representatives of each partner foundation. Each affiliate pays an annual fee equal to 1% of its assets. Operational savings, combined with reduced investment fees due to pooled assets, are significant at the individual community foundation level. One affiliate calculated a net decrease of 48% in annual operating expenses after joining the alliance. Alliance members in total achieve operational savings of approximately $140,000 per year.

Age	*5 years*
Focus	*Consolidated back-office operations*
Scope	*10 counties*
Participants	*9 community foundations*
Asset size	*All under $6M*
Geography	*Rural*



Community Foundation Alliance (Indiana). This nine-foundation alliance serves a nine-county region that, previously, had very limited access to institutional philanthropy. Feasibility studies in the early 1990s painted a grim picture for the sustainability of community foundations. The alliance came together as a mechanism for tapping Lilly Endowment Gift Initiative funds in 1991, and as a means of serving a broad area (rather than launching smaller, likely unsuccessful, efforts). Its major tenet: "equal voice in governance, with individual identity for each county and strong regional communication." Each participating foundation has representation on the alliance board, and receives services from a central office. Each pays 1% of its endowment annually toward shared back-office, marketing, development, and grantmaking functions. Audit efficiency alone is estimated to save the alliance $16,500 annually. Alliance partners have raised more than $50 million for the region, supported regional education initiatives, and provided a coordinated regional voice. While a strong collective effort, the alliance struggles to retain local leadership, identities and priorities.

Age	*13 years*
Focus	*Central administration and governance*
Scope	*9 counties*
Participants	*9 community foundations*
Asset size	*$850K to $10.5M*
Geography	*Rural*

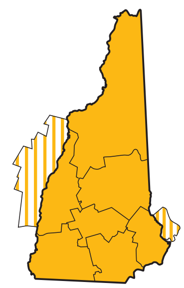


Humboldt Area Foundation (California). This community foundation works through affiliate funds to attract and support local leaders and advance community development in four very large, very rural neighboring counties (three in Northern California, one in Southwest Oregon). For ten years, the foundation has provided central administration, governance, marketing and program support to these funds. In return for high quality, low cost service (based on a maximum of 1.5% of fund assets per year), local fund leaders are expected to advance the foundation's dual interest in community and regional development. These leaders are provided the option of maintaining a federation with Humboldt Area Foundation or starting independent community foundations. The federation model is the clear preference to date, and has created philanthropic infrastructure throughout the region while attracting local donors and spawning new regional programs, initiatives and investments.

Age	*10 years*
Focus	*Central administration, governance, marketing and programming*
Scope	*4 counties*
Participants	*1 community foundation with 2 affiliate funds*
Asset size	*$58M aggregate*
Geography	*Rural*

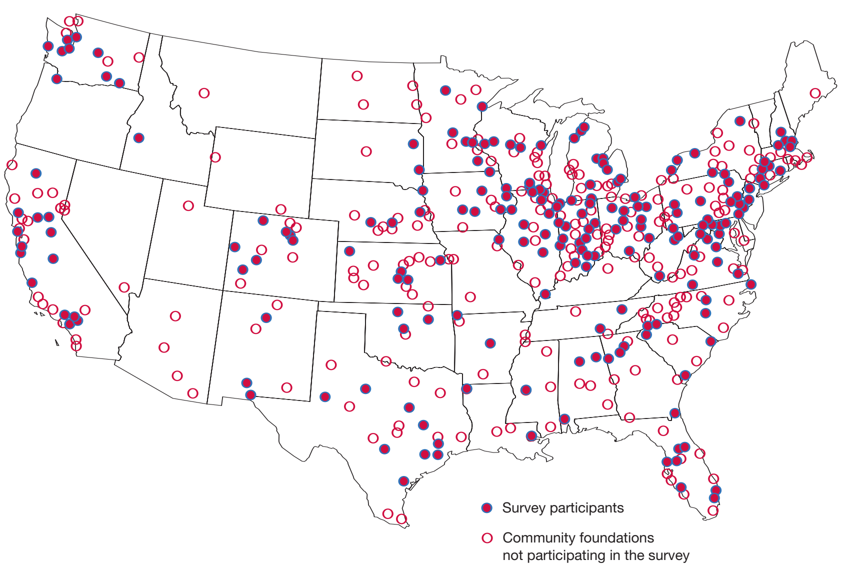
New Hampshire Charitable Foundation. This 43-year old community foundation has been steadily localizing its presence and appeal through a set of seven regional divisions created over the past 20 years. These divisions serve all regions of the state, and collaborate with community foundations in Vermont and Maine to serve some bi-state communities. A single legal entity promotes local visibility and presence through this approach, in which the foundation hosts a fund and allocates staff to each regional division. This relatively complex structure yields benefits that include local commitment and expertise, deep knowledge of place, and direct connections to local donors—all important ingredients for success in a state that prides itself on a culture of local governance and accountability. As a statewide system, the New Hampshire Charitable Foundation provides consolidated administration, governance, marketing and program support to regional divisions, enabling local staff and over 90 members of regional advisory boards to focus on local needs and giving.

Age	*43 years*
Focus	*Central administration, governance, marketing and programming*
Scope	*State*
Participants	*1 community foundation with 7 regional divisions*
Asset size	*$500K to $34M*
Geography	*Rural and urban*



A high-response survey

In addition to the five case studies, a survey was sent in November 2004 to all community foundation members of the Council on Foundations. Out of 524 people, 210 responded, yielding a response rate of 40%.



Survey respondents were distributed in a pattern similar to the distribution of all community foundations in the continental United States.

Site study findings: highlights

Site study findings show a shared focus on providing better quality services, as well as a range of common and individual outcomes. The cases studied differ in size, age, focus and success. Despite these differences, each is an operational model with a core purpose of improving community foundation reach (in terms of marketing and communications) and/or streamlining or raising the quality of internal operations (in terms of accounting and services).

Quality first. First and foremost, participants recognize that "better" means quality first. This became evident in case study investigations of structures and goals. Survey responses amplified this finding, revealing a prevalence of alliances focused on core operational functions such as marketing, finance and reporting.

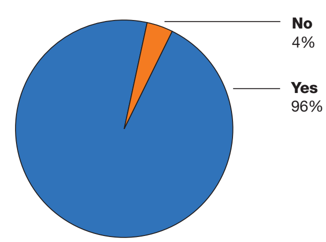
Asset growth happens. While a purpose in each of the five sites studied was quality service, the Humboldt Area Foundation, New Hampshire Charitable Foundation, and Community Foundation of the Upper Peninsula models also resulted in new gifts and/or accelerated endowment growth. Why? Because the pooling of funds and/or centralizing of operations allows local leaders to focus their time on outreach to community organizations and individuals. Plus, emphasizing the local identity of funds, divisions or affiliates enhances community credibility and connections.

Opportunistic origins. The models studied were formed around timely needs and situations that drew upon the dynamic, flexible and opportunistic characteristics of participants. They illustrate the ability of community foundation leaders to strategically assess and respond to organizational and marketplace needs.

Success factors. Success was accompanied by a set of key ingredients: leadership and persistence, flexible arrangements, and respect for local expertise. Conversely, struggles took place when "border issues" ignited, when key people left, or when one partner felt the others no longer shared its values.

Reaching higher standards. Because all site case studies began before implementation of the *National Standards for U.S. Community Foundations*, their purposes cannot be directly linked to efforts to achieve these standards. However, a third (33%) of survey respondents who have participated in alliances believe alliances provide "moderate" or "significant" assistance in meeting standards. Also of note is that a high percentage (86%) of survey respondents who have never participated in an alliance state "no" or "don't know" when asked if they view alliances as a vehicle for operating under standards.

"Has your community foundation declared intent to meet national standards?"



Ninety-six percent of survey respondents intend to meet standards.

Survey findings: highlights

A total of 210 responses were obtained in the November 2004 survey of U.S. community foundations. CEOs/executive directors represented 85% of respondents.

A mixed group. 52% of respondents currently participate or formerly participated in a community foundation alliance; 47% have never participated in an alliance.

Reasons for not allying. Of those who have never participated in an alliance, 31% never had a reason to form an alliance, 18% do not have an available alliance partner, and 7% do not share values with other potential partners.

Nature of alliances. 43% of alliances focus on improved marketing/communications, 40% on uniting regional philanthropy; 17% on increasing assets.

Degree of benefit. 26% of alliances are found to be extremely beneficial, 35% are very beneficial, 23% are moderately beneficial, and 10% are not beneficial.

Lower costs. While only 14% of respondents with alliance experience cite "decreasing administrative or operational costs/fees" as a reason for forming an alliance, 43% of respondents with alliance experience report a decrease in these costs/fees.

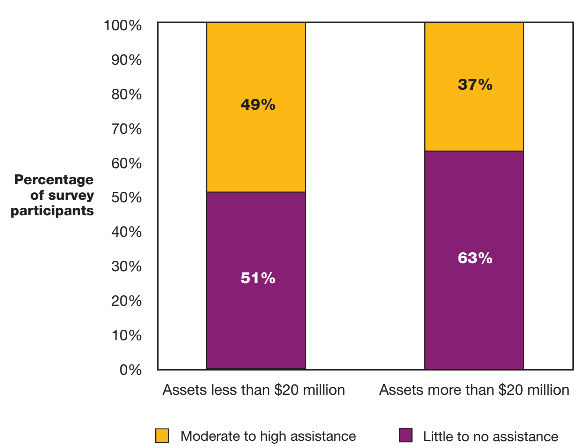
Challenges. The top four challenges reported by community foundations with alliance experience are: loss of local autonomy/control (39%), loss of identity (33%), competition for donors (30%), and increased administrative/operational costs (20%).

Sustainability factors. The two most important factors in sustaining an alliance (according to 79% of respondents with alliance experience) are that each participant receives benefit and that participants are willing to partner; next are strong and consistent leadership, mission alignment among partners, and retaining local autonomy.

Connection to standards. 49% of smaller community foundations with alliance experience report that alliances are of moderate to high assistance with regard to meeting national standards; this number is higher than the 37 of larger community foundations giving the same response (see chart).

Field-wide potential. 71% of all respondents report that successful alliances can help the field at large increase its ability and capacity for philanthropy building, 59% say alliances can help build public trust and credibility for the sector, 49% say alliances can help philanthropy come together on other issues, and 44% say alliances can help participants achieve standards-quality services.

"How has participating in an alliance assisted you in achieving national standards?"



Conclusion

What role do regional alliances play in helping community foundations, especially those with under $20 million in assets, achieve financial sustainability?

Simply put, this research shows that alliances have the potential to reduce community foundations' operational costs and increase their organizational capacity, thus strengthening their prospects for sustainability.

The case studies bring these findings to life. The Michigan Upper Peninsula and Indiana cases demonstrate that community foundations can achieve significantly reduced audit costs, negotiated investment management fees, and decreased overall operating expenses. All involved in the New Hampshire and Humboldt cases agree that participants in their models receive administrative, grantmaking and donor development services for a fraction of what it would cost them to manage these functions as independent community foundations. And while community foundations may not necessarily find decreased administrative costs an incentive for collaboration—only 14% of the survey respondents cite this as an important reason for forming an alliance—43% of survey respondents experienced a decrease in administrative/operational costs and fees as a result of their alliances.

All case study participants benefited from strengthened organizational capacities. As evidenced by the Southwest Michigan case, community foundations can improve their accounting systems, overall financial health, and administrative efficiencies through collaboration—in addition to removing these responsibilities from over-burdened executive directors. Another benefit, apparent in both Michigan cases, is more efficient, consistent and accurate financial reporting. The Humboldt, Indiana and New Hampshire cases also show that a community foundation can benefit from a shared, central staff and infrastructure capacity, enabling it to focus its own efforts on developing local leadership. Humboldt and Indiana were able to expand their geographic reach supported by a stronger infrastructure. New Hampshire improved its local reach and impact through organizing its statewide territory into seven regional divisions.

Beyond stronger capacities and decreased operational costs, evidence of additional benefits emerges from this research. A sizable 61% of survey respondents report leveraging community foundation funds, resources and knowledge as a key accomplishment of their alliances. Wild Rivers Community Foundation reaps this benefit daily as local staff takes advantage of Humboldt Area Foundation's operational protocols and institutional knowledge, as well as outside grant support made possible through a shared regional approach.

Research findings also hint at stronger regional voice and policy presence as a potential benefit. One of the most reported accomplishments of an alliance, cited by 59% of survey respondents with alliance experience, is uniting philanthropy on a regional level. The New Hampshire and Humboldt Area cases exemplify a united regional voice and have demonstrated regional policy successes as a result of their work.

Community foundations in the United States have experienced a formative two decades. Evidence of a maturing field includes rapid growth in numbers and assets, the development of sector-wide support organizations such as Community Foundations of America and the Community Foundations Leadership Team of the Council on Foundations, and the global spread of community foundation concepts and services. The national standards movement is the latest—and perhaps the most influential—indicator of an industry-wide commitment to operational excellence and to a robust national presence.

Buried within this broad story, however, are signs of an important shift in assumptions that have guided the proliferation of community foundations. A core assumption for many was that success of the field meant a community foundation *in* every county. The early experience of the models studied—the variety of forms they take, and their focus on shared operations, accountability and governance—implies that we are entering an age where the goal is, instead, accessible, effective community philanthropy *for* every county.

This research highlights the purposes and accomplishments, both near- and long-term, of regional alliances among community foundations. It also highlights variety: There are as many types of alliances as there are reasons to partner or partners to join.

Among study participants, there is broad interest in and use of alliances, accompanied by recognition that their impetus is often around short-term gain, and that their durability is dependent on flexibility. As the national standards era unfolds, and common measures, systems and data sets emerge, it will be important to note how alliances flex to shape community foundation operating structures, personnel and board decisions, and provision of quality philanthropic services in local communities.

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