

EXECUTIVE SUMMARY

On the Brink of New Promise

THE FUTURE OF U.S. COMMUNITY FOUNDATIONS

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U.S.community foundations have entered a pivotal new era. The generation ahead, from 2005 to 2025, will be marked by dynamic change within and around community philanthropy. Every individual community foundation—and the field as a whole—will face new choices. The path ahead is full of promise. Unfortunately, that promise will not be easily realized.

These are bold claims, and we make them only after a process of discovery, analysis, and iteration that has involved more than 300 philanthropic leaders since the spring of 2004. The impetus for the research came from the Charles Stewart Mott and Ford foundations, who asked us to provide U.S. community foundations with some advance warning about the world to come.

On the Brink of New Promise: The Future of U.S. Community Foundations looks not just at community foundations, but at the entire field of community philanthropy, which we define as the practice of catalyzing and raising resources from a community on behalf of a community. “Community” itself is defined in a number of different ways, including affinity across geography, issues, and identity. Within this, community foundations are simply one form of community philanthropy, in which the community is defined in terms of geography. As geography has slowly become just one of many ways that people identify their communities, it becomes increasingly important to understand community foundations as inseparable from this broader whole.

In the past decade, the new complexity and competition facing community foundations has led the U.S. field to look inward to the mechanics of philanthropy, areas where organizations can assert control—an understandable, and necessary, first-order reaction to external forces. This new moment clearly calls for the opposite—for looking outward and forward, for embracing the new possibilities and making calculated gambles.

Not all of today’s institutions will survive. Some will survive and even grow, even as they become less relevant to the changing needs of their communities. Others will adapt and thrive in every sense, for bringing people and resources together to address the social, educational, economic, environmental, and cultural challenges of the country’s places is an inspiring mission. Indeed, leading our communities toward greater civic resilience and building trusted global connections are among the compelling opportunities of the generation ahead.

What’s clear is that in the coming years, community foundations will face a far greater challenge than they have in the past to define and act on their distinctive value to their communities. The good news is that this next era is ripe with opportunities. Our purpose is to help you seize them.

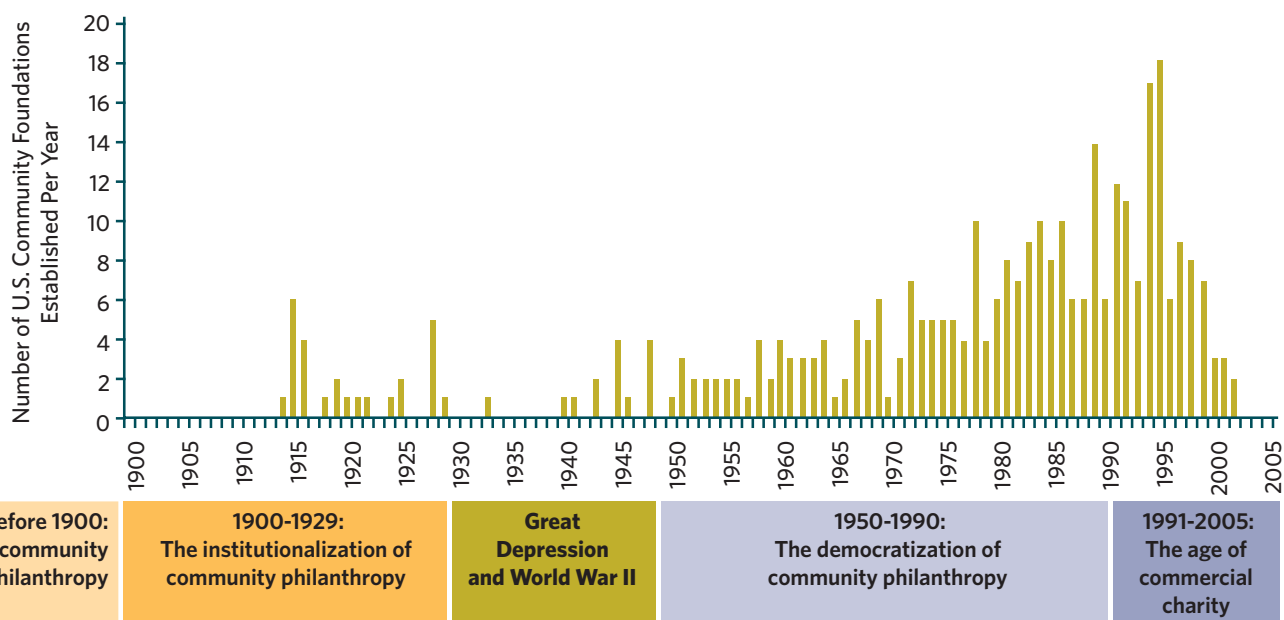
Learning from the past

A scan of key changes over time reveals that the growth and adaptation of community philanthropy in the United States has unfolded in fits and starts. Nevertheless, we found four major formative periods, each marked by notable growth in community philanthropy, changes in the organizational forms and structures, and new roles for both established and emerging structures.

- **Before 1900:** Early community philanthropy. Early American community philanthropy was characterized by informal practices of “taking care of one’s own” that were integrated into the daily life of every American demographic group.
- **1900–1929:** The institutionalization of community philanthropy. This period witnessed the formalization of early giving practices and the creation of many of today’s key institutional structures, such as community foundations, giving federations, and United Ways.
- **1950–1990:** The democratization of community philanthropy. During this time, organized community philanthropy spread and diversified into new communities and populations.
- **1991–2005:** The age of commercial charity. This period included the explosive growth of community philanthropy organizations in the 1990s and the entrance of commercial charitable gift funds into the philanthropic arena.

Understanding these periods inspires us to see the inherent adaptability of community philanthropy to challenging new circumstances and helps us recognize that today is part of a long evolution of community giving—not a blip in time, unrelated to what has come before or after.

The evolution of community philanthropy in the United States



Source: Sample of 337 Community Foundations; Foundation Center Data, Monitor Institute Analysis

Today's landscape for community foundations

The cumulative changes have created a challenging new landscape for community foundations that is remarkably different from a generation ago. The diversity of competitive forces that have emerged is the most striking development.

Recent years have seen expansion and diversification in the range of other community philanthropy organizations—including United Ways, giving federations, identity-based funds, giving circles, hometown associations, healthcare conversation foundations, commercial charitable gift funds, and other community-based public foundations—in large cities and rural areas in the U.S. and around the globe. Community philanthropy organizations now number in the thousands, manage billions of dollars, and regularly act in the public eye and on the public's behalf. There are both distinct and overlapping networks of organizations, often sharing common goals while competing for resources. Community foundations are a prominent feature in the picture of community philanthropy, but they are by no means alone. As a result of these changes, many of the original assumptions that guided the early community foundations—and continue to influence the DNA that forms community foundations' core identity today—no longer necessarily fit today's operating environment.

The emergence of the next era

Our research indicates that a “fifth” formative period is now beginning. The community philanthropy that we know today will not disappear, and its descendants will surely resemble some of what is now familiar. But like it or not, a combination of inescapable changes will alter many fundamental aspects of community philanthropy. Among the forces that are shaping this new era:

- *Economic and market pressures.* The shift from an industrial economy to an information-based one has unleashed new fortunes, new poverty, new politics, and new global relationships. Corporate consolidation, globalization, and outsourcing are likely to further rearrange local economies as corporations become increasingly mobile. Decisions about economic policy at the national and global levels, as well as local experiences of gaining or losing jobs and industry, will determine community by community whether the time is prosperous or embattled.
- *Demographic changes.* The face of America in 2050 will be quite unlike that of the 1950s, or even 2000, and the change is already taking place astonishingly quickly in some regions. On the whole, the nation is getting older and more diverse. Migration patterns, the aging of the U.S. population, rural and urban discrepancies, and new

Today's competitive environment for community foundations



or emerging population centers will fundamentally alter the composition and social dynamics of communities, as well as the services they require. Community philanthropy will need to ensure that they can serve the different interests and needs of emerging new populations like communities of color, young people, and immigrants.

- *Changing expectations for regulation and accountability.* Philanthropy in the next generation will operate under increased regulatory and public scrutiny. The nested systems of regulation that guide philanthropy are complex and involve tax structures at multiple jurisdictional levels (state, national, international) and can be shifted by new regulations on organizations (foundations) and/or

individuals (the estate tax). Philanthropy is also affected by regulatory changes in other sectors, including intellectual property and copyright law, homeland security, communications, civil rights, immigration law, and the personal and corporate tax codes. And alongside the external regulatory activity, organized philanthropy continues to implement efforts at self-monitoring, exemplified by the widespread adoption of national standards.

- *The commercial sector as innovator.* Community philanthropy has long been connected to several allied industries, such as accounting, tax law, estate planning, investment advising, and financial management. As each of these industries innovate, merge, and develop new services they force the others to do so as well, each

exerting and responding to ebbs and flows in the others. Technology vendors that build software and hardware systems for managing grants, investments, and entire charitable operations are the latest new player in this mix. The independence, access to capital, built-in scalability, and customer focus of these commercial providers gives them an important advantage over individual and joint efforts by community foundations and makes them an important source of new product innovation in the field.

- *Changing relationships between sectors and new expectations for public problem solving.* Philanthropy has grown up within the parameters set by much larger public revenues and systems and certain expectations about the role of businesses. Devolution, tax reform, and cuts in domestic spending have changed the role of national, state, and local governments in providing community services. At the same time, corporations are now leading the way in many product, service, and regulatory innovations that facilitate philanthropic transactions. Ongoing structural shifts in government services and corporate responsibility will require philanthropy to continuously assess these relationships as it defines its role in public problem solving.

The future is now for community foundations

It is not simply the presence of deep changes in these separate realms that will force community philanthropy to adapt. It is the ways in which these forces combine and compound each other that marks true transition periods. This is why we conclude that:

- The combination of the new complex environment within philanthropy and the inescapable forces around the field is already creating a new wave of adaptation in community philanthropy.
- The next generation is likely to create surprises as important as Fidelity's entrance into the field in the past generation.
- In the coming years, community foundations will face a far greater challenge than they have in the past to define and act on their distinctive value to their communities.

The coming cycle of change will be dynamic and will have many dimensions we cannot now predict. What happens will depend on how individual choices add up over time as funders respond to the uncertainties that face community foundations and the field in general. Scenarios help shed light on how the choices made today could shape tomorrow, and allow us to imagine different, yet plausible, futures that could emerge. For instance:

- What if changes in tax regulations and giving patterns force the consolidation of community foundations, United Ways, and other identity-based funds as a way to streamline overhead costs?
- What if a large provider of data management services for foundations begins to use its enormous database to directly connect donors to nonprofits, effectively "disintermediating" community foundations?
- What if a national partnership between community foundations and back office technology providers allows community foundations to work together as a seamless network of connected community offices?
- What if the community foundation standardization process leads to a widespread adherence to common forms and approaches that drives donors in search of more creative and flexible giving vehicles?

Lessons from the future: Strategic implications for community foundations

The best efforts of previous generations of leaders have left our generation an incredible legacy—a diverse and growing institutional infrastructure—to build upon. But incremental change may not be sufficient to ensure the field's relevance and impact in the pivotal new era that has already begun.

Today's compelling need is to summon the courageous leadership that will be required to meet the new challenges and opportunities that are emerging. How community foundations organize and act now will reverberate for years to come. The window for action in this era is likely to be much shorter than in previous ones, because of the pace and scale of change in American communities and among the innovators from inside and outside the field who are busily creating the future.

As a result, much of the mindset that has guided the field to this point needs to be replaced with new assumptions about what constitutes success. The leadership task we see lies in creating three subtle but significant shifts in assumptions and priorities:

A shift in focus from the institution to the community

Over the last decade, the new competitive environment—and the realities on the ground—have understandably led American community foundations to an emphasis on operational efficiency and to a primarily defensive response of institutional preservation. It has been visible in the move to national standards; the cost-basis studies conducted for the field; the widespread implementation of national marketing efforts; and the creation, evolution, and current alignment of the field’s two national bodies—the Community Foundations Leadership Team and Community Foundations of America. Many community foundations still have considerable work to do in bringing their operational and technological capacity up to par.

These responses and strategies are essential. But there is a very real danger that by remaining primarily focused on these institution-building and operational issues today, community foundations may be working hard to perfect an industry that will not be matched to emerging realities. It is now time to move on to a second order of change—a shift outward, to re-examining the function and impact of their work in the context of rapidly changing communities.

The field has long known and acknowledged that its strategic advantage is in its community knowledge, relationships, and leadership. But with notable exceptions, it is still basically rhetoric. To capitalize on their unique advantage, community foundations will need to refocus on why they exist and whom they ultimately serve.

Why? Because every service and product community foundations offer—from donor education to program capacity-building, from estate planning to initiative management, from donor advised funds to scholarships, giving circles, online fund monitoring, and more—is now available from other sources, or will be soon. With many other types of organizations able to handle the services that community foundations have traditionally managed—often with lower costs and greater efficiency—community foundations more than ever before will need to “walk the talk” of community benefit and demonstrate

their value by emphasizing their impact on and accountability to their communities.

A shift from managing financial assets to long-term leadership

The primary definition of institutional success for community foundations cannot be the size of the endowment. Success will come from the organization’s role as a focused, long-term advocate on behalf of the community. Building an endowment is one important part of helping communities, but it is not the final measure of success nor the primary reason for the organization to exist. Community philanthropy organizations, especially community foundations outside of the United States and identity funds and alternative funds in the States, have developed a wide range of other ways to help donors and communities work together and prepare for the long term. It is permanence—the assurance of a strong, enduring commitment that will allow donors to feel secure that gifts given today will continue to serve the community for the long term—that matters. Community foundations will need to articulate the link between their demonstrated, principled leadership in communities and the promise that permanent resources can be used nimbly and effectively to address the pressing problems of the future. The endowment is the means to service, not the end in itself.

Strategic positions on challenging issues, cross-sector solutions, and a relentless commitment to the betterment of communities must become as much a part of community foundation parlance and action in the future as donor services and grants management have been in the past. Many community foundations have already been breaking ground in just these ways and more, demonstrating leadership on difficult local issues such as youth violence, economic development, social justice, and environmental awareness.

And while there has probably never been one model for a community foundation, there certainly will not be in the future. Community foundations can now choose from a wide range of strategic roles in their communities, from building and sharing knowledge, brokering regional collaboration, and shaping community discourse to nurturing new philanthropists, building community capacity and leadership, and advocating for policy solutions. These kinds of roles will make up the “building blocks” of community philanthropy strategy in the future. No single role or set of roles will make sense in

all communities. A community foundation can now mix and match from among these building blocks to meet the specific needs of its community and complement the existing competencies of other community organizations.

A shift from competitive independence to coordinated impact.

Community foundations cannot rethink their own strategic roles without developing a deeper understanding of how they fit into the larger network of community philanthropy organizations and vendors. Otherwise, they risk wasting time and effort by competing unnecessarily or duplicating effort. Or they risk missing the ways to render service more efficiently and effectively by taking advantage of new tools and products coming into the field from the outside.

We believe that the future success on the ground in communities and successful competition for donors will require a fundamental shift from a mindset of independent value to one of coordinated impact. Today's community foundations need to figure out how they can be indispensable additions to communities' improvement strategies and to donors' portfolios of giving options. They need to structure themselves to work in real partnership with other community philanthropy organizations and commercial innovators while enhancing and deepening the connections people make to one another and to communities. In some places, the case for mergers among organizations will be compelling.

The new challenge is not just to figure out how to compete individually, but also how to add value by facilitating the aggregation of resources, capacities, and connections to produce and demonstrate better outcomes for communities. Free from electoral cycles and bottom-line pressures, community foundations can capitalize on their independence by demonstrating their interdependence.

Betting on the future

None of the recommendations we've made will be easy to implement. Finding sustainable ways to focus on communities, provide long-term leadership, and create coordinated approaches that demonstrably improve communities is tough work. Community foundations are being squeezed from all sides in the community philanthropy universe. On one side, their donor and financial services are the objects of great interest, innovation, and competition from commercial financial and technology vendors. On the other side, their roles as

community leaders and knowledge brokers is based on relationships with service-providing local organizations, many of whom are increasingly able to grow and manage complex philanthropic relationships on their own.

The choices are difficult, but choosing to do nothing is likely to result in declining relevance for community foundations. Big bets will need to be made and whole new ways of structuring the work of community philanthropy created. There are already leaders in many places—some predictable and some unexpected. These are leaders who cultivate philanthropic resources as diverse and dynamic as their communities and who continually engage new tools, ideas, and people in their endeavors. Such leadership has defined previous eras of community foundation success. Such leadership will determine whether our own era realizes its promise.

Shifting Fundamentals

The **old measure of success** was growth in assets under management.

The **new measure of success** is demonstrated leadership on behalf of a community.

The **old definition of a philanthropic product** was a structure for devoting financial assets to charity. Examples include donor advised funds, scholarships, and charitable annuities.

The **new definition of a philanthropic product** is a combined package of know-how and financial resources that results in community improvement. Examples include successful community development investments, rehabilitated housing, and effective artist-in-residency programs.*

The **old question** was, "What did our grant accomplish?"

The **new question** is, "How do we work with others to contribute to community improvement?"

The **old business model** was based on fees on assets under management.

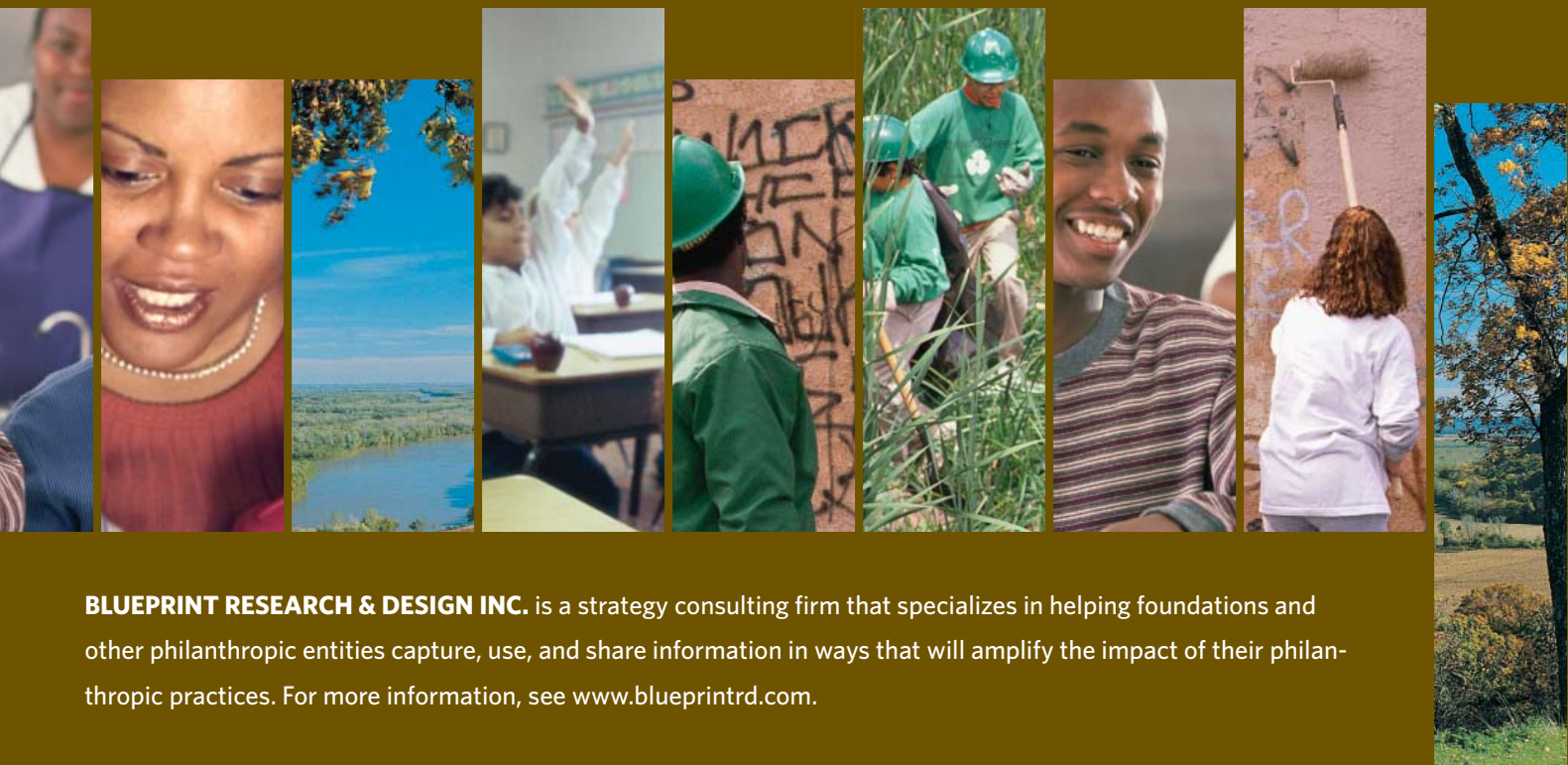
The **new business model** is being invented by this generation of community philanthropy leaders.

*Articulated by Ronn Richard, president of The Cleveland Foundation, July 2005.

ON THE WEB: Tools for building your future.

On the Brink of New Promise: The Future of U.S. Community Foundations is a far-reaching synthesis of the changing environment for community philanthropy and its implications for community foundations. A companion discussion guide and other resources will be available at www.communityphilanthropy.org to help individual community foundations apply the lessons of this document to the specific circumstances of their communities and organizations.

www.communityphilanthropy.org



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