

Community Foundations at the Crossroads:
Social Change Agents or Charitable Bankers?

By Emmett D. Carson, Ph.D.*

Keynote Address

Community Foundations of Canada's 2002 National Conference
Kelowna, British Columbia
May 3, 2002

Introduction

It gives me great pleasure to have been asked to participate in Community Foundations of Canada's 2002 annual meeting. Over the past several years, I have had the distinct pleasure of getting to know Monica Patten. Monica is an outstanding advocate of the community foundation movement around the world and Community Foundations of Canada is fortunate to have her at the helm. I also want to recognize my good friend, Carolyn Milne, of the Hamilton Community Foundation. Carolyn and I have had long and stimulating conversations about the importance of the community foundation movement and we have shared our dreams for our institutions and communities.

I want to talk about three things this morning. First, I want to talk about why I believe that community foundations are at an important crossroads in determining who we are and what role we should play in our community. The central question is: Are community foundations social change agents or local charitable banks? Second, I want to talk about why the road we choose to travel going forward will have important implications not only for community foundations but also, and more importantly, the communities that we serve. Third, I want to challenge Community Foundations of

Canada, and its members, to take a greater leadership role in this growing international debate for the heart and soul of the community foundation movement.

Before beginning my remarks, I need to make several disclaimers. As an American cousin, I know just enough about Canada to sound as if I know what I'm talking about and be completely, absolutely, wrong. I also must confess that I am not here as a neutral observer. I am here as an informed advocate. I believe that the distinctive competence and best purpose of community foundations is to develop unrestricted assets to address the most pressing problems of their communities. This is not to suggest that this is the totality of what we can, or should, do but rather to say this is the core of our work around which everything else we do is built.

Lastly, some of what I say may be viewed as controversial. If it is, I ask that you judge my head and not my heart. My head may not have chosen the right words to describe what I want to say, however, I hope you will not doubt the sincerity in my heart. I believe in what community foundations can do and I believe the community foundation movement in the U.S. may be in the process of making bad strategic choices that are having a negative affect on the development of the community foundation movement worldwide. To raise questions about this choice is not intended to create dissention but rather to promote honest and open dialogue, consistent with the principles of democracy and civil society.

Why is the Community Foundation Movement at the Crossroads?

In some respects, there always has been a tug of war between the competing visions of whether community foundations are social change agents or charitable banks. Banks started the earliest community foundations in the United States beginning with The Cleveland Foundation in 1914. Several were started the following year, including The Minneapolis Foundation, and the concept began to spread throughout the U.S. The problem that bank executives faced was straightforward: clients were making charitable bequests that the banks were responsible for fulfilling. While the banks were interested in maintaining investment control over the charitable assets, they were less enthusiastic about the time consuming and potentially controversial community projects in which their clients were interested. The creation of community foundations allowed banks to continue earning fees from managing the assets of deceased clients while shifting the responsibility for the community work to a board of community volunteers. Everybody was a winner.

During these early years, the undisputed goal of community foundations was to build permanent unrestricted endowments that would be directed by community representatives to benefit the community in perpetuity. There was near universal acceptance of the need for unrestricted assets to ensure flexibility and quick action in addressing community concerns. Community foundations did little to fundraise other than develop and cultivate their relationships with bank trust departments and encourage individuals to leave bequests. In general, community foundations were content to rely on bank trust departments to refer funds to them. As community foundations became more

established within the community and their assets grew, their relationships with banks became more contentious.

By the 1960s, the asset growth of community foundations began to slow down. Community foundations waited for people to die and then hoped that if there were charitable bequests, the bank's trust department would involve the community foundation. Recognizing this dependence on banks and taking advantages of changes in the U.S. tax laws in the late 1970s, community foundations began to market donor advised funds so that they could engage donors in philanthropy during their lifetimes. This strategy provided immediate resources for community projects as well as increased the likelihood that the donors would include the community foundation in their charitable bequests. Some community foundations also became concerned that the investment performance of the banks was sub par. And, arguing that community foundations had a fiduciary responsibility to carry-out the wishes of the deceased donor on behalf of the community, successfully petitioned the courts to gain greater control over how banks could invest the charitable assets.

Banks responded by largely ending their referrals of charitable funds to community foundations. After all, why involve community foundations in implementing a charitable bequest if the possibility existed that they would challenge your investment management of the assets. As the legal restrictions between banks and financial institutions virtually evaporated, financial institutions began to offer their customers donor advised funds. Fidelity created the first commercial charitable fund in 1992. Last

year, the Fidelity Charitable Gift Fund was identified as the second most successful fundraising charitable organization in the U.S. having raised nearly \$1.1 billion.¹ A growing number of financial institutions in the U.S. are offering donor advised funds. These institutions recognize that it is profitable for them to continue to manage the charitable assets of clients until the donor decides to recommend a charitable contribution. In addition to the commercial funds, donor advised funds are being offered by universities, United Ways, as well as race, gender and religious specific organizations.

Clearly, donor advised funds are no longer the unique product of community foundations. This development has led to an identity crisis among community foundations in the U.S., uncertainty by national private foundations about the wisdom of continued support for community foundations and adverse consequences for the development of community foundations around the world.

To respond to the growing competition for donor advised funds, many U.S. community foundations have decided that the goal of attracting unrestricted assets is no longer a necessary, or even worthwhile, objective. Like the commercial funds they seek to emulate, these community foundations describe themselves as being donor focused. They no longer see developing an unrestricted endowment for their community as their primary mission but rather are focused on serving the charitable interests of individual donors and their families.

This approach has had broad appeal for at least two reasons. First, it takes a long time to build a significant permanent unrestricted endowment. Increasingly, fewer community foundations, especially newer ones, are willing to devote the time and energy to a task that will not reach fruition for decades to come. Second, by modeling themselves after commercial funds, donor focused community foundations believe that they will be better able to emulate the success of the commercial funds in terms of asset growth.

The charitable banking movement of community foundations has become so dominant that the current definition of a community foundation in the United States no longer refers to the idea of creating a permanent unrestricted endowment. The definition under consideration for adoption by the U.S. Council on Foundations states:

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.

What is noteworthy is that this artfully worded definition does not mention permanent unrestricted assets. It is the accumulation of such assets that allows community foundations to have the flexibility to take on the most challenging issues in their community. Without unrestricted assets, the community foundation's representative board has no way to exercise its collective values and priorities on behalf of its community, independent of the values of individual donors. While there may be individual donors who might support a particular community issue, this debate centers on

the ability of a community foundation's board to have the necessary permanent unrestricted assets to direct grants in support of the issue at hand and over time.

While praising the inclusiveness and capacity to engage in social change that is inherent in the community foundation model, we also must truthfully acknowledge that community foundations have not always lived up to this ideal. We must guard against inventing a past that did not exist if we are to be credible in our advocacy for the future direction of the community foundation movement. Community foundations have not always modeled the best practices of diversity and have not always been at the forefront of championing dialogue and action on the most difficult social issues facing the community.² The honest acknowledgement of these shortcomings does not minimize the power of the community foundation concept which continues to attract the interest and passion of people around the world who believe in the value of collective community action and civil society.

What Difference Does It Make?

The difference between a donor focused community foundation and a community-focused community foundation is not whether or not they rely on donor advised funds but toward what end.³ For a donor focused community foundation, the number of funds and total size of assets under management are the measures of success. For a community-focused community foundation, the primary interest is to directly improve the quality of life in the community. Donor advised funds are a means through which to establish a relationship with the donor for two distinct purposes. Rather than passively waiting for the donor to develop his or her interests, community-focused community foundations

actively try to identify critical community projects and encourage donors to be supportive of those projects. And, by developing a direct engagement with donors during their lifetimes, community-focused community foundations hope that the donors will leave a portion of their charitable bequest to the community foundation in the form of permanent unrestricted assets.

For a community-focused community foundation, the measures of success are the ability to work on the community's most difficult issues and the extent to which they have increased the permanent unrestricted assets of the foundation. To be clear, it's not that community focused community foundations don't rely on donor advised funds or don't enjoy their interactions with donors-- it's that these efforts are the means to a larger end of obtaining permanent unrestricted assets so that the community foundation can engage in meaningful social change.

If community foundations only see themselves as local charitable banks -- only interested in transacting the charitable interests of donors-- we will, and, I believe, should be supplanted by larger more efficient commercial funds of financial institutions. If all that community foundations provide is the ability to transact the largely pre-existing charitable interests of donors, the commercial funds of financial institutions will always be more cost effective due to greater economies of scale. Commercial funds provide a valuable service to their customers and to the larger community. They are not, as some in the community foundation field believe, the enemy. The problem emerges when the boards and staff of community foundations forget, or choose to ignore, that community

foundations have a different mission and agenda than commercial funds. We will be making a crucial mistake if we abandon our distinctive competence in building civil society in defined geographical communities to become charitable banks focused on the primary goal of building assets.

In a prophetic statement written in 1989, my good friend and colleague, Jennifer Leonard, president of the Rochester Area Foundation stated:

Money is both the means and the end for community foundations. But if we grow for growth's sake, we shrink to opportunistic fundraisers; if we give over control to donors, we can issue checkbooks and wait for the I.R.S. to call. Yet if we give without growth, we may as well be private foundations. In planning asset-development strategies, community foundations should reexamine their mission, with an eye toward a balanced and fully realized future. Given fortune and foresight, each can raise community capital, a growing reserve earmarked for the common good.⁴

There are several other important consequences to consider in this debate. If we move away from our traditional role in building civil society and creating the space for shared dialogue, who will fulfill this role? Private foundations do not represent the broad and diverse interests of the community to be a neutral convenor. The same is true of other types of organizations that focus on a single segment of the population that offer donor advised funds. United Ways and universities are reliant on annual contributions and are therefore unlikely to raise contentious community issues for fear of jeopardizing future donations. Certainly, commercial funds are unlikely to play this role for similar reasons.

U.S. community foundations have received significant support from national private foundations interested in developing local partners who could develop permanent

unrestricted assets to work with them on projects of mutual interest. These same foundations have been at the forefront of promoting the community foundation movement worldwide.⁵ As a consequence of the division among community foundations, national private foundations must become more discerning about the community foundations with whom they choose to partner and more explicit about the messages they export to emerging community foundations around the world about the mission of community foundations. Donor focused community foundations are unlikely to be strong partners in working with national private foundations to advocate social change.

Perhaps most distressing is that the identity crisis of U.S. community foundations is beginning to have disastrous consequences for the community foundation movement in Africa, South America and Eastern Europe. As a participant in meetings through the Transatlantic Community Foundation Network and the Synergos Senior Fellows Program, I have observed first-hand how the growing obsession of U.S. community foundations on asset accumulation is shifting the focus of community foundations around the world away from discussions about civil society, inclusive diversity practices, community building and social justice.

I have been amazed and re-energized by stories of our colleagues around the world who are doing wonderful things in building community and establishing transparency and accountability with limited resources. Creating dialogue on important community issues doesn't require significant assets but it does require courage. In fact, I

have observed that, more often than not, the accumulation of unrestricted assets makes a community foundation less likely rather than more likely to tackle difficult community issues. When they have nothing to lose, community foundations seem more willing to take on tough community issues so that they can become more visible, in part, to attract donors. As the community foundation becomes established, it becomes more fearful of damaging its reputation and alienating current and potential donors. As a result, it is less willing to connect its name to controversial social issues, e.g., social inequities, racial discrimination and homophobia.

Communities around the world that were attracted to the community foundation movement because they were interested in building civil society, are now being told that their job is to exclusively serve donors. They are being told that rather than being a voice for the shared interests of the community, they are to be the voice for those who have the most resources in the community. Rather than measuring success based on influencing community dialogue and creating a shared understanding, they are being told that success is based on the size of their asset base. It is disheartening to see newer community foundations around the world beginning to focus single-mindedly on raising resources divorced from any discussion of how those resources should be used to help improve the quality of life in their communities. It therefore falls to those of us who believe in the original mission of the community foundation movement to find our voices and energetically engage in this debate.

A Leadership Role for CFC

Community Foundations of Canada has a critically important role to play in this growing international debate. First, you have an impressive pedigree. CFC has a membership of 119 community foundations. One of your members, The Winnipeg Foundation, was started in 1921, only seven years after the first U.S. community foundation. Second, adhering to CFC's goals and principles compel you take an active role in this debate. Specifically, CFC has defined its role as promoting the community foundation movement and to demonstrate philanthropic leadership in Canada and internationally. The time to live up to that mission is now.

For the CFC, and its members, to have credibility in this debate, it is important that you live the brand. What do I mean by this? I mean that you will have to walk the talk. It is no longer enough to say that you conceptually agree with the proposition that the worth of a community foundation is more than the sum of its assets. You must demonstrate through your actions that you practice the values of the community foundation movement. As stated in the CFC's excellent report, *Principles for Community Foundations*, those values must include: building community capacity, understanding the changing nature of our communities, reflecting diversity and creating opportunities for dialogue.

Canada is a multicultural community. In 1971, Canada was the first country in the world to adopt a multiculturalism policy. Nearly two-fifths of Canadians have a family origin other than British, French or Aboriginal. And yet, is this diversity evident on the boards, staff and in the projects supported by CFC members? If not, are valid

efforts being made in this regard? In looking at this audience, it appears that significant work remains to be done in this regard. These are not problems that are ever solved – they are opportunities for inclusion, collective action and legitimacy that must be continually wrestled with. From my perspective, it is a simple matter for the CFC, and its individual members, to play the international leadership role that I am proposing. You have the organizational structure, savvy and experienced leadership and strong member community foundations already in place. You also have articulated strong values and philosophy. All that is needed is for you to demonstrate your commitment with actions that are equal to the eloquence and passion of your words and to proclaim it to others. The question is: Do you have the will?

Conclusion

Make no mistake; the community foundation movement that had its beginnings in the U.S. has lost its way. Local and national meetings of community foundations are dominated by discussions of how to increase assets with little discussion about whether those assets are being used in the most effective ways to build communities and strengthen civil society. The obsession of U.S. community foundations with building assets is beginning to have a negative influence on the development and direction of the community foundation movement worldwide. This is not a debate about whether community foundations should or should not be active in raising assets. We have to. This is not a debate about whether community foundations should provide high quality services to their donors and engage them in philanthropy. We must. And, this is not a debate about whether commercial funds benefit philanthropy. They do.

This debate is about whether community foundations are social change agents, have a distinctive competence in building civil society and whether the accumulation of unrestricted assets over time is a necessary condition to fulfill this mission. Only time, and our actions, will tell whether this debate will lead to a renaissance of the community foundation movement or to its end. The future of the community foundation movement, and our communities, is in our hands.

Endnotes

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

¹ Nicole Lewis and Meg Sommerfeld, “The Philanthropy 400,” *The Chronicle of Philanthropy*, November 1, 2001, pp. 35.

² Emmett D. Carson, “Community Foundations, Racial Diversity, and Institutional Change,” in *New Directions for Philanthropic Fundraising*, ed. R. Hedgepeth, Number 5, Fall 1994, pp. 33-43.

³ Stuart Appelbaum and Bryan Clontz, “Donor-Advised Funds: A Tale From Two Cities,” *Foundation News & Commentary*, May/June 2002, Volume 43, Number 3, pp. 32-35.

⁴ Jennifer Leonard, “Creating Community Capital: Birth and Growth of Community Foundations,” in *An Agile Servant*, ed. R. Magat, (New York: The Foundation Center, 1989), pp. 89-90.

⁵ Emmett D. Carson, “A Crisis of Identity for Community Foundations,” *The State of Philanthropy 2002* (Washington, DC: National Committee for Responsive Philanthropy, 2001), pp. 7-11.