The Center on Philanthropy & Public Policy

COMMUNITY FOUNDATIONS, ORGANIZATIONAL STRATEGY, AND PUBLIC POLICY

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Research Paper - 23
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UNIVERSITY OF SOUTHERN CALIFORNIA

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Community Foundations, Organizational Strategy, and Public Policy

Abstract

This empirical study of the strategic direction of California community foundations explores how this choice is impacted by organizational and community characteristics. We develop a model of the determinants of organizational strategy in community foundations, and analyze it based on data collected on community foundations and their communities. We then consider the implications for public policy. Community foundations that have been established for some time and those located in communities that are themselves stable are the ones that appear best positioned to enhance the problem-solving capacity of communities.

1. Introduction

Over the past decade, expectations about an expanded role for private philanthropy in the solution of social problems have increased (see, for example, O'Connell, 1996; Hall, 1999; Goss, 2001). Much of these expectations are centered on the ability of philanthropic organizations to enhance the capacity of local communities to solve the complex and challenging problems they face. This community level focus suggests that community foundations, with their relatively unique attention to place, can potentially play a pivotal role. But, little is known about their capacity to play this role, when they choose to assume it, or the determinants that will influence their success.

Community foundations are grantmaking public charities.[1] These public foundations are funded from multiple sources, including individuals, corporations, other foundations, and government agencies, and are defined by their focus on a specific community or geographic region. Although they represent only a small proportion of U.S. foundations, community foundations make up one of the country's fastest growing philanthropic entities. In 2002, there were 661 active community foundations, ranging in size from the New York Community Trust ($1.7 billion in assets) to many smaller community foundations with assets less than $100,000. Their combined 2002 assets of approximately $29.7 billion represented 6.8% of all foundation assets. Their giving, which totaled about $2.5 billion, represented 8.3% of all foundation giving, and community foundations received over $3 billion in gifts, or 14.3% of gifts to all foundations (Foundation Center, 2004).

Community foundations have enjoyed a long history in the United States, dating from 1914 with the creation of the Cleveland Foundation. They have also proven to be a popular philanthropic form, experiencing substantial growth in number and size over the 1980's and 1990's. Even with this growth and their unique potential, the role that community foundations can play in

[1] Contributions to these nonprofit organizations are tax-deductible under 501(c)(3) of the Internal Revenue Code. Community foundations must demonstrate broad public support from diverse funding sources to maintain their public charity status.

enhancing the capacity of communities to solve the critical problems they face is unclear, as little empirical work has assessed their capacity.

Community foundations have been the subject of several recent studies (e.g., Bothwell, 1995; Walkenhorst, 2001), including their role in community development efforts (Philipp, 1999; Carman, 2001; Lowe, 2004), and the impact of diminished government funding and devolution (O'Connell, 1996) on that role. These studies have focused on community development activities such as community foundation support of neighborhood-based groups in low income areas, low income housing redevelopment, and neighborhood revitalization (Lowe, 2004).

Addressing the premise of several of these studies – that foundations are expected to play a significant role in community development, this study empirically explores the extent to which community foundations are in fact positioned to enhance the problem solving capacity of communities. We do this by analyzing determinants of the strategic direction of California community foundations, and by developing the implications of these choices for the ability of community foundations to fulfill their expected roles.

The strategic direction of a community foundation refers to its organizational focus and the purpose of its activities. As such, its choice is an important indicator of the nature and extent of the foundation's connection to its community. This study identifies the determinants of strategic focus in order to provide new information about the capacity of these philanthropic organizations to participate effectively in community development. In the next section, we discuss alternative strategic directions and develop our model of their determinants. In Sections 3 and 4, we analyze our model empirically using quantitative and qualitative data we collected on California community foundations. The policy implications of our results are developed in the last section.

2. The Determinants of Strategic Direction

The strategic direction of an organization defines its focus, and there are a number of strategic directions that can be pursued by community foundations.[2] The set can usefully be categorized around a dominant focus on donor services versus community leadership.[3] More precisely, we define 3 major strategic directions upon which a community foundation may focus --Donor Services, Matchmaker, and Community Leader.

Donor Services. A donor services strategy describes a foundation that is primarily positioned to build gift funds by serving financial planners and donors. The mission of the foundation is centered on the donor. Indicators of this strategy include services focused on types of giving and gift planning; collateral material and webpage content dominated by information about giving; and a majority of staff time spent on donor relations. Interaction with nonprofit organizations is limited to grantmaking. Leonard (1989) suggests that foundations pursuing this strategy will

[2] These strategic decisions should be differentiated from the strategic philanthropy decisions receiving attention in the field (e.g., Porter and Kramer, 2002). This study is concerned with the strategic direction or mission of the foundation rather than strategic grantmaking.
[3] This categorization is consistent with strategic planning advice offered by foundation support organizations (e.g., Agard, 1991). See also Leonard (1989) for a similar categorization of the missions of community foundations.

focus on living donors and will make little effort to alter donor desires, resulting in a high level of designated or restricted funds.

Matchmaker. The matchmaker serves as an intermediary between donors – both individuals and other foundations, and nonprofits. The mission of the foundation is to match donors' interests with the needs of the community, and considerable attention is paid to developing and maintaining relationships with both constituencies. The matchmaker works with the nonprofit community to stay informed about the needs in the region and then provides that information to donors seeking direction for their giving. Staff time is about equally divided between recruiting donors and working with nonprofits.

Szanton (2003) describes this role in his discussion of intermediary organizations or regranters. The community foundation makes use of local knowledge and experience to connect donors with effective nonprofits. Reiner and Wolpert (1981) suggest donors rarely have an understanding of community needs or the opportunity costs of not giving (i.e., higher taxes), making the matchmaker role vital to directing funds to areas of greatest need. This role reduces information and monitoring costs for donors, while providing nonprofit organizations with access to both a broader donor base and a network working to impact the community.

Community Leadership. A foundation using a community leadership strategy seeks to be a catalyst for change in the community. In addition to grantmaking programs and donor relations, the foundation provides policy-oriented information and facilitates community conversations. The mission of the foundation is centered on responding to, collaborating with, and leading efforts in the community to create policy changes that combat the most significant problems facing the region. Lines of communication are opened among nonprofits, donors, community activists, the foundation, and policy makers. Over 50% of staff time is spent working with nonprofits and community partners. It is this strategic focus that much of the literature has described as the ultimate goal for community foundations (e.g. Lowe, 2004; Hamilton, et. al., 2004; McKersie, 1999). But, not all community foundations may seek such an activist role.

It is the choice among these 3 strategic directions that we seek to explain. It is important to note here that we do not believe that a community foundation will adopt one of these strategies to the exclusion of the others. Most will likely focus some attention on all three. Rather, we seek to explain the dominant strategic focus of the organization. The choice is a consequential one. The capacity of a foundation focused on donor services to affect community problem solving directly is inherently limited. While donors are clearly vital to the process, a primary focus on fundraising may limit the foundation's ability to respond to important areas of need. In contrast, foundations that are focused primarily on providing community leadership are developing networks that are well positioned to enhance the problem-solving capacity of their communities.[4]

Model

Although much of the scholarly attention to organizational strategy has focused on business organizations, there is a growing literature on the strategic management of nonprofit organizations. In a recent review, Stone, Bigelow & Crittenden (1999) analyzed the findings of

[4] Leonard (1989) also argues that this choice is predictive of asset growth patterns, with a donor services focus being more conducive to rapid growth.

empirically based research on strategic management in nonprofit organizations. None of the studies considered philanthropic organizations. Although there are limitations on our ability to apply either literature to the behavior of community foundations, there are useful general insights. For our purposes, the relevant work focuses on the determinants of the strategic decisions made, rather than the process by which the decision occurs or how the strategy is implemented within the organization.[5]

Hambrick (1983) defines strategy as a stream of decisions that guide an organization's alignment with its environment, and shapes its internal policies and procedures. Organization theorists have tended to focus on two general theories of the relationship between strategy and the environment. One view is that strategy is responsive to environmental changes and thus adaptive. Organizations assess external and internal conditions and adopt strategies that align the two (Boeker, 1989; Chaffee, 1985). For community foundations, the nature and extent of the philanthropic community within which they operate (including both donors and potential partners) are likely to be critical external conditions. In particular, the absence of a mature donor base or a network of capable potential nonprofit and philanthropic partners may necessitate a strategic focus on developing these, or potentially limit the capacity to focus on an expanded role dependent on the existence of these.

The alternative theory is that a strategy once selected constrains future choice; this literature emphasizes the inertia tendencies of organizations (e.g., Stack and Gartland, 2003). This inertia may result from the impact of strategy on organizational resources. Investments in personnel and other resources in pursuit of a specific strategy are likely to limit the ability of an organization to pursue an alternative strategy (Freeman and Boeker, 1984). For foundations, the impact of a major donor could elicit such inertia. Founding major gifts are likely to be more defining for the foundation than subsequent gifts. Organizations by definition must make strategic choices at the time of their founding. As the organization grows under this choice, Freeman and Boeker (1984) argue that size and age become evidence of the viability of the initial strategy, making strategic change difficult. Patterns of power, organizational values and resources are all focused on the established strategy (Miles and Snow, 1978).

In both theories, the age and size of the organization are likely to be contributing factors. Young organizations on average have less capability in making and implementing strategic decisions. Small organizations have fewer resources. The effects of these organizational characteristics however are unclear. Are older organizations set in their ways (as the inertia theories suggest) or do older, larger organizations have the capabilities to be more responsive to their environments?

Drawing from both of these theories, our model of the determinants of organizational strategy is a modified life-cycle theory of community foundation development. We hypothesize that community foundations generally follow a predictable development as they age from a focus on building donor resources toward a community leadership role. More precisely, our model suggests that the young community foundation must, by necessity, focus on building its resource base. This means developing relationships with donors and increasing the foundation's assets.

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[5] In the Miles and Snow (1978) context, we are concerned with the entrepreneurial problem -- how the organization defines its domain. In our context, this is the choice between a focus on donors or the community as the targeted service "market".

As the organization ages, it develops stronger ties to the community, and its focus shifts away from primarily donor services and toward community leadership. Increasing size brings increased flexibility to pursue this strategy. This model predicts that older, larger community foundations will choose the community leadership focus, while younger, smaller foundations will choose a donor services focus.

A simple life-cycle model, however, ignores several important environmental differences that foundations face across communities and over time. There are community and external characteristics that could mitigate or even dominate the hypothesized life-cycle effects. The ones that have the greatest potential to alter this pattern are the philanthropic capacity of the community, the capacity of community partners, external partners, and both local and national competitors. We consider the expected impact of each.

Communities vary substantially in the extent of their philanthropic capacity. In some, philanthropic behavior is a tradition; in others, it must be developed. Those with persistent linkages to loyal and informed donors are better positioned to focus on shifting donor resources and organizational strategy (Wolpert and Reiner, 1984). The absence of a mature donor base might necessitate a focus on developing these resources independent of the foundation's organizational development stage. This process might take decades to complete and lead to organizational inertia making it difficult for the foundation to change its focus. Conversely, a community foundation formed in a wealthy community with a strong philanthropic tradition might be able to entertain a community leadership strategy very early in its development. We expect two community characteristics to be important indicators of a strong potential donor community – wealth, and the stability or connectedness of residents to their community. The donor motivation literature (e.g., Schervish, 1997) supports the influence of such characteristics on charitable participation.

Community foundations also vary in the existing network of community nonprofits and other strategic partners with whom they could work. Within-community partners include nonprofit service providers, other public charities like the United Ways, and other private and public foundations. If there are few potential partners or they lack the capacity to address the region's needs, this may limit the ability of the community foundation to pursue a community leadership or matchmaker strategy. External organizations may also be important strategic partners, and some could have the capacity to affect the mission of the community foundation. Large private foundations with an interest in the region could, through their funding priorities, alter the strategic direction of the community foundation. For example, if a substantial proportion of a community foundation's giving is through regranting from another foundation, then this may necessitate a matchmaker focus.

Community foundations face both national and local competitors for donors. National for-profit providers of donor services, e.g., Fidelity, are competitors for all community foundations, but their importance has grown over time. Thus, a recently-formed community foundation faces a substantially different competitive environment than one formed 25 years ago. Competitors for donor resources also vary by community. For example, well established members of the community (e.g., a university or hospital) may constrain a foundation's donor development opportunities. Thus, important differences in competitors over time or across communities could alter the strategic choices of a foundation. Strong competition may increase the amount of resources that the community foundation must devote to donor services. It could, however, also enhance the movement toward community leadership as such a strategy capitalizes on an advantage that community foundations have over competitors.

We will thus control for the effect these community and external characteristics could have on the hypothesized life-cycle impacts. Finally, we argued earlier that major gifts, especially at founding, are likely to limit the future strategic choices of a community foundation. More precisely, if such events shape the initial strategic focus of the organization, then this choice may persist over time – thus mitigating the life-cycle effects outlined above.

To summarize, our model of the determinants of strategic direction (presented in Figure 1) emphasizes the role of 3 sets of variables – the internal characteristics of the community foundation (organization age and size, and the presence of a defining major gift at founding), characteristics of the community served by the foundation (extent of philanthropic capacity, capacity of local partners, and the strength of local competitors), and the role of external strategic partners and national competitors for donors services.

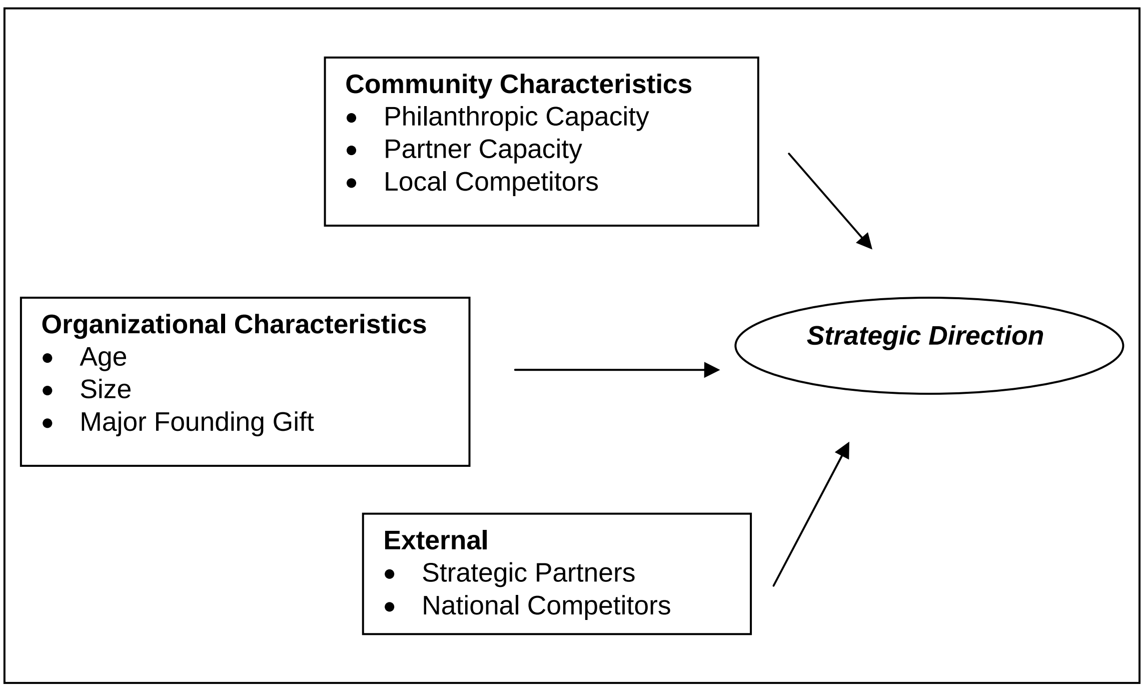

Figure 1. Determinants of Strategic Direction in Community Foundations

3. Data and Context

An empirical exploration of our model requires a detailed analysis of a set of community foundations and the communities they serve. We have chosen to study the population of community foundations in the State of California. Obviously, such a regionally based analysis has limitations with respect to generalizability. But the California sample also has much to commend it.

The demographic and geographic diversity of California offers a robust set of communities to study. This diversity is shared by the state's community foundations, which vary significantly in terms of assets (from $100K to over $1B), age (founding year from 1915 to 2001), strategic direction, and geographic location (urban to rural). This variation allows us to explore the research question in considerable depth. In part, the richness of the population results from the disproportionate presence of community foundations in the state. In 1998, they accounted for 11% of the giving and 20% of the gifts received in the state, compared to 8% and 11% for all U.S. foundations (Ferris and Sharp, 2001). Moreover, California foundations are a significant and growing proportion of the country's philanthropic landscape.

During 2004, we collected data on the 34 community foundations registered as members of the League of California Community Foundations and the 47 counties they serve in California. The CEO of each of the 34 foundations was interviewed.[6] Additional data on the foundations were collected from the League of California Community Foundations, 990 PF forms, GuideStar.org, and individual community foundation websites and annual reports. Socio-economic data on the communities they serve were collected from census and state data. The resulting data set includes detailed organizational, financial, and geographic service area information on each foundation.

In order to observe the determinants of organizational strategy in different economic environments, we collected strategy choices covering the period from the early 1990s through the early 2000s. This period encompassed a recession (early 1990s), moderate growth (mid 1990s), and a major economic boom (late 1990s), followed by a bear market and significant loss of wealth (early 2000s). This period also witnessed considerable growth in the number and size of community foundations. At the beginning of the period, there were 23 community foundations. By the end, there were 34, a 48% increase. This growth is comparable to the 50% increase in the total foundation population over the same period in the United States (Renz and Lawrence, 2004). Asset growth from 1997-2002 alone increased 51% (from $19.7 to $29.8 billion) nationally and 74% (from $2.7 to $4.7 billion) in California (Foundation Center, 2004).

The data analysis will rely on the quantitative measures of our variables and on the narrative data from our interviews. We begin with our findings on the distribution and trends in the choice of strategic direction by California community foundations.

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[6] A list of those interviewed and the interview instrument are provided in the appendix.

Strategic Choices

Foundations were assigned to a specific strategic direction based primarily on information provided by the interviews. Community foundation CEOs were questioned about their organization's current and past strategic directions. These responses were then compared to mission focus, webpage content, and staff time distribution to check for consistency. The resulting patterns in strategic choice are presented in Figure 2, with D denoting a focus on Donor Services, M on Matchmaking, and L on Community Leadership. The last column denotes the count when more than one foundation followed the observed pattern.

Figure 2. Observed Patterns in Community Foundation Strategic Choices

Pre 1990s	Early 90s	Mid-90s	Late 90s	2003-04	*Count*
D	D	D	D	D	*6*
D	D	D	D	M	*3*
D	D	D	M	M	
D	D	D/M	M	L	
D	D	L	L	L	
D	M	M	L	L	
D	L	L	L	L	
M	D	D	L	L	
M	M	D	D	D	
M	M	M	M	L	
M	M	M	M	M	
L	L	L	L	L	*2*
	D	D	D	D	
	D	D	D	M	
		D	D	M	
		L	L	D	
			D	D	*4*
			D	M	
			D	L	*2*
			M	M	
				D	*2*

Of the 34 community foundations in our sample, 3 (9%) started with a community leadership strategy and 5 (15%) with a matchmaker strategy. The remaining 76% focused on a donor services strategy as their initial strategic direction. Thus, a focus on building resources was the strategy of choice for California community foundations at founding.

To explore our hypothesized Donor Services to Community Leadership transition in strategy, consider the first 22 shaded observations – those for which we can observe at least a decade of strategy choices. Of these, 10 (45%) show no change in strategy over the period. These observations argue against the life-cycle progression we hypothesized – particularly since 5 of these foundations have pursued their chosen strategy for over 30 years. Among the 12 for which we observe changes in strategy, 7 made a transition from donor services to matchmaker and 6 moved from either donor services or matchmaker to community leadership. Two moved from

matchmaker to donor services during their history, perhaps recognizing that additional resources were needed to address needs revealed by the matchmaking activities.
The strongest conclusion that can be drawn from this univariate exploration of strategy is that most foundations start with a strategy to develop and expand their donor base through a focus on donor services.

These choices were aggregated for the 4 periods covering the last 14 years, and Table 1 presents the percentage of California community foundations pursuing each strategy by period. The last line in the table is the number of foundations operating in each period. This presentation reveals a substantial shift over time in the strategic focus of the State's community foundations. The percentage of foundations focused on community leadership more than doubled from almost 14% in the early 1990s to over 29% in the early 2000s. In the early 1990s, 68% of the foundations pursued a donor services model, 18% focused on matchmaking, and only 14% focused on community leadership. Today, only 44% are pursuing a donor services model, 26.5% a matchmaker strategy, and over 29% a community leadership strategy.

Table 1. Percentage of California Community Foundation Pursuing Strategies

	Early 1990s	Mid 1990s	Late 1990s	Early 2000s
Community Leadership	13.6%	20.8%	21.9%	29.4%
Matchmaker	18.2%	14.6%	15.6%	26.5%
Donor Services	68.2%	64.6%	62.5%	44.1%
Number	*22*	*24*	*32*	*34*

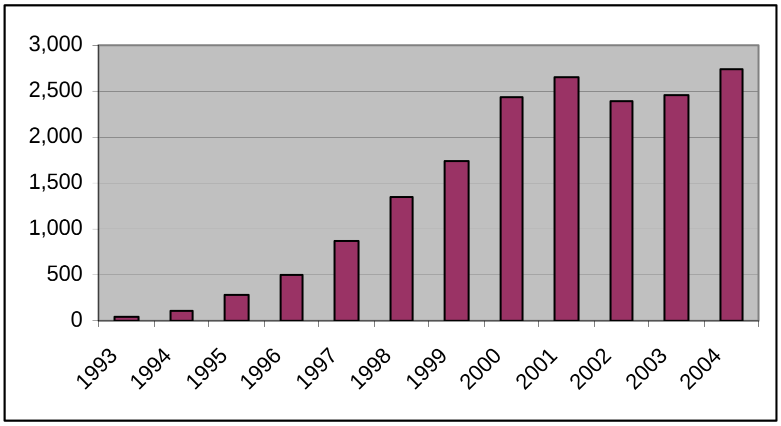
Environmental Context

Before turning to an explicit analysis of the determinants of strategic direction, these decisions must be placed in their broader environmental context. This 14-year period was characterized by dramatic changes in economic conditions, the development of national commercial competitors for donor services, and the professionalization of the philanthropic sector. We consider briefly the nature and likely impact of each.

This 14-year period begins with the recession-laden early 1990s, followed by a booming economy in the mid to late 1990s, and another economic downturn in the early 2000s. As such, the observed trends argue against a simple relationship between asset growth and choice of strategic focus. The percentage of foundations pursuing a community leadership strategy continued to grow in the early 2000s despite the economic downturn, shrinking endowments, and limited donations. This suggests that factors other than asset size are affecting organizational strategy.

This same 14-year period saw important changes in the competitive environment community foundations face in the provision of donor services. A national commercial market for planned giving developed and flourished, with firms like Fidelity and Schwab offering a full-range of donor services, including donor-advised funds.[7] The growth of this commercial market is illustrated in Figure 3 by the growth in assets of the Fidelity Charitable Gift Fund. This fund, founded in 1992, was the first commercial provider of these services and remains the largest.[8] Therefore, the trend illustrated in Figure 3 is a good proxy for the increase in national competitors that community foundations faced over this period.[9]

Figure 3. Fidelity Charitable Gift Fund Net Assets ($ Million)
Data Source: www.charitablegift.org



The impact of this changing competitive environment on organizational strategy is not obvious. One might expect that the increased competition would encourage community foundations to focus more attention on donor services. But, this is not what we observe. Foundations instead may have recognized that it was their community connections that differentiated them from commercial providers of these services. This recognition may have led some to focus more on community leadership or matchmaker strategies. In any case, we cannot isolate the direct role of the growth in commercial competition as it was faced by all community foundations. But, as noted earlier, we expect the impact to differ to some extent with the age of the foundation.[10]

Finally, this period coincided with the movement in the United States to standardize and professionalize the philanthropic sector – a movement that encouraged many foundations to explicitly contemplate their strategic direction. Organizations such as the League of California Community Foundations, the Foundation Center, and the Council on Foundations assumed a more significant role in training and advising community foundations, as evidenced by The

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[7] Donor-Advised Funds, which have been offered by community foundations since the 1930s (Luck and Feurt, 2002), became a popular giving instrument in the 1990s. They provide donors with an immediate tax deduction for donated assets, but also allow them to recommend how the money is distributed.
[8] The Fund has made over $4.5 billon in grants between its inception in 1992 and June 2004 (www.charitable-gift.com/history).
[9] In 2002, Fidelity's fund represented $2.4 billion of the $3.4 billion in assets held by the 25 largest commercial donor-advised funds (von Peter, 2003).
[10] Competitive pressures will continue to increase, as the development of new instruments like Donor-Managed funds require strategic responses. With Donor-Managed Investment funds, donors give their assets to a charity and get an immediate tax deduction, but can continue to manage the assets for up to 10 years (Silverman, 2004). This instrument will provide donors with more investment control than is available with Donor-Advised Funds. This is notable since the added control that donors enjoy in commercial DAFs compared to those housed in community foundations is believed to offer a competitive advantage to commercial funds (von Peter, 2003).

Council on Foundations' development of National Standards for U.S. Community Foundations in 2000. Fulltime staffing of community foundations accompanied the training efforts, moving foundations away from the volunteer-driven entities of their founding years. Grantmaking processes were formalized, and foundations began to develop long-term plans for organizational development. Several of the CEOs surveyed suggested this strategic planning process itself encouraged the migration toward a community leadership strategy.

Another process that encouraged strategic planning was the reshaping, formalizing, and training of foundation boards. CEOs reported sending board members to national conferences designed to introduce contemporary governance strategies to community foundation leadership. Several of the largest corporate and private foundations awarded grants to support this endeavor. There are indications of the effectiveness of these efforts, as 30 of the 34 CEOs reported that their board was at least partially responsible for major shifts in strategic focus in the last five years. The precise nature of the role of boards in promoting strategic change is an area deserving of additional study.

To summarize, these important changes in their economic, market, and professional environment were faced by all community foundations. We will seek to capture differentiated responses to these stimuli though the organizational variables of age and size. The role of other differences, especially in organizational leadership, is not captured in our analysis, but may impact the selected strategic direction.

4. Model Analysis

We empirically analyze our model using both qualitative and quantitative methods. First, based on the interviews, we explore our hypotheses about the role of major gifts, partners, and competitors on organizational strategy. Then, we estimate a multivariate model of the determinants of the foundation's current strategic direction.

Major Gifts

Interviews provided the means by which we explored the role of major gifts in the choice of strategic direction. We found little support for major gifts as the primary force behind either a foundation's original strategic focus or its subsequent changes in strategy.

We asked CEOs if their foundations were formed by charter gifts and if those gifts set the original mission. In most cases (29 out of 34), the founders set the original mission to serve the general well-being of the community. For example, one foundation was created by a donor "to serve the unique needs of her community more effectively;" another to "help public service organizations care for the sick, improve working and living conditions, provide recreation facilities, prevent disease, and in general help improve the community." Such general missions were not perceived as limiting the strategic choices of the foundation. To the contrary, their breadth may in fact have enhanced the opportunity for changes in strategy over time.

We did find some examples that supported a defining role for founding gifts. Foundations were created to provide free band concerts for the community, to conduct historical preservation

projects, to fund capital projects that serve children and the elderly, and to award scholarships to local students going to college. Each of these foundations followed the strategic course set by their founding gift, some for decades, supporting the inertia hypothesis discussed earlier. These examples, however, proved to be the exception.
CEOs were also asked about major gifts subsequent to the founding of the organization. No one listed a gift that caused a notable strategic shift. It is important to note here that CEOs may be hesitant to disclose that they had changed their organizational focus because of a major gift. The more common assertion was that major gifts had to fit within and support the existing mission of the foundation. This was illustrated by a foundation that turned away an eight-figure gift because the donor's wishes did not fall within the foundation's mission. At most, major gifts were reported to enable foundations to enhance their ability to achieve their existing mission.

We also explored the role of Donor-Advised Funds. These funds are housed within community foundations, but the donor makes recommendations on all grantmaking decisions. Their growth in importance coincided with the emergence of the venture philanthropy movement in the 1990s. Venture philanthropists sought to apply their venture capital and entrepreneurial experience to their philanthropic activities, just as donor advised funds sought to take a more active role in the management and distribution of their gifts. Such highly engaged donors clearly have the capacity to affect organizational strategy.

Many CEOs argued that Donor-Advised Funds provided resources to fund projects that would otherwise be outside the scope of their mission or funding priorities. Others noted that with the reduced assets and giving associated with market downturns, many foundations had to limit their giving to Donor-Advised awards. Nearly all of the CEOs suggested that these funds provided an important opportunity to build a relationship with the donor, and most hoped that in time they would be able to encourage these donors to direct their gifts towards areas of need identified by the foundation.

Taken as a whole the interviews did not provide compelling support for a defining role for major gifts in organizational strategy. Unfortunately, our data were not sufficiently detailed to allow us to explore this hypothesis quantitatively.

Partners

Interviews also provided the means by which we explored the role of philanthropic partners on strategic choice. The CEOs were asked about their primary strategic partners, the nature of those relationships, how they were formed, and their effectiveness. An interesting pattern emerged. Young, modestly-endowed foundations suggested that partners were primarily a source of potential funds. They identified their partners as larger private foundations located <u>outside</u> of their community such as the California Endowment, Irvine Foundation, Hewlett Foundation, and Packard Foundation. The few local partners mentioned were also in terms of fundraising efforts.

In contrast, older, better-endowed foundations described <u>community-based</u> partners such as other foundations in the area, nonprofit service providers, local government officials, and community activists. The foci of these partnerships were described as conversations about community needs. This difference in the nature of these strategic partnerships is consistent with our hypothesized movement toward a community leadership focus as a community foundation ages.

None of the CEOs suggested that their choice of strategy resulted from the presence or absence of partners within their community. Rather, the partnerships – with whom, and their nature – seemed to be a consequence of their strategic choices rather than a determinant. Thus, our hypothesized role for the absence of community partners as a driver in the choice of organizational strategy was not supported by the interview data. Community foundations seem to be driven by their own strategic initiative, rather than by responsiveness to the existing capacity of their community partners.

Competitors

The interviews revealed that CEOs regard their main competitors for donors to be local nonprofits and universities, and the national commercial providers of donor services discussed in the last section. They viewed local and national competitors very differently.

National providers of donor services, as expected, were viewed as direct competitors. Several noted that financial planners received better fees for setting up these funds than from community foundations funds. Many discussed the need to differentiate themselves from commercial competitors. Some mentioned establishing better links to the community to demonstrate a better understanding of need. Others mentioned expanding the scope of their relationships beyond financial planners and attorneys to ask a broader set of individuals and community organizations (e.g., Rotary Clubs) to refer donors.

Local competitors were not viewed as such. Many did not want to think about other nonprofits as competitors. Rather, they talked of developing cooperative partnerships with these organizations. Efforts were made to communicate with these organizations to find common areas of interest, especially in difficult financial times.

In both cases, however, competition seemed more likely to push foundations toward a matchmaker or community leadership strategy, rather than donor services. Whether thinking competitively or cooperatively, foundations identified community ties as the key to growth.

Model Estimation

Our model of organizational strategy posits the influence of organizational characteristics (age, size, major founding gift), community characteristics (philanthropic capacity, local partners and competitors), and external partners and competitors. We considered the role of major gifts, partners, and competitors in the qualitative analysis. Here we analyze quantitatively the role of organizational age and size and community indicators of philanthropic capacity.

Organizational age (*Age*) is measured as the number of years since the foundation was founded; organizational size is measured by assets in millions of dollars (*Assets*). We expect older and larger foundations to be more likely to choose a community leadership strategy.

We use community wealth and stability as indicators of philanthropic capacity. Wealth is measured as median per capita income (*Income*) in thousands of dollars. This measure is a proxy for wealth and will undercount some of its components. Therefore, we also include the percentage of homeowners (*Homeowners*), which serves as an indicator of both wealth and community stability. Finally, we include the percentage of population change between 1990 and 2000 (*PopChange*) as a second indicator of stability. We expect high income communities, with a high proportion of homeowners, and low levels of population change to be more likely to have mature donor populations, thus allowing foundations greater choice with respect to strategy. The descriptive statistics for these variables are summarized in Table 2.

Table 2. Descriptive Statistics

Independent Variables	*Mean*	*Std Deviation*	*Minimum*	*Maximum*
Age	27.76	24.38	3	89
Assets ($M)	135.23	263.35	.027	1150.0
PopChange	14.94	9.14	1.42	45.06
Homeowners	62.58	8.40	38.4	78.7
Income ($000)	23.59	6.03	15.0	44.96

Our dependent variable, Organizational Strategy, is measured two ways. The first, *Strategy*, is an ordinal variable assuming a value of 1 for a Donor Services strategy, 2 for a Matchmaker strategy, and 3 for a Community Leadership strategy. We consider the hypothesis that community foundations progress through these strategies toward community leadership as they age and grow in size. The second form, *Community Leadership*, is a dummy variable capturing the choice of Community Leadership compared to the other two, and thus assumes a value of 1 if a foundation pursues a Community Leadership strategy and 0 otherwise. In summary, we consider the following model:

Strategy/Community Leadership = f(Age, Assets, Income, Homeowners, PopChange)

Our relatively small number of observations limits our choice of estimation methodology. We consider two approaches. First, we estimate the ordinal variable, *Strategy*, using ordinary least squares (OLS). The results are presented in Table 3. The limits on the measurement of the dependent variable are such that these results should be viewed as suggestive. Nevertheless, the results are consistent with our expectations. This estimation views strategies as a continuum ranging from donor services to community leadership. The results suggest that older foundations are more likely to pursue community leadership strategies than donor services. *Assets*, however, are not a significant independent influence on the choice of strategy. Among the community variables, only *Homeowners* has a statistically significant impact on choice. Foundations servicing communities with a higher percentage of homeowners are more likely to choose a community leadership strategy over donor services.

Table 3. OLS Estimation of Strategy

	Beta	*Std error*	*T*	*Sig level*
Constant	-2.39	1.42		
Age	**.0186**	**.007**	**2.764**	**.010**
Assets ($M)	.00108	.001	1.397	.173
PopChange	-.0127	.016	-.807	.427
Homeowners	**.0586**	**.020**	**2.948**	**.006**
Income ($000)	.0046	.032	.142	.888
R^2	42.1			
F (sig)	4.08 (.007)			
N	34			

Our second estimation is a logit model of the dummy variable *Community Leadership*. This is a more appropriate estimation strategy given the nature of our dependent variable, but it doesn't allow us to distinguish between Donor Services and Matchmaker strategies. The results are presented in Table 4.

Table 4. Binary Logit Estimation of Community Leadership

	Beta	*Std error*	*Wald*	*Sig level*
Constant	-21.915	9.35		
Age	**.077**	**.036**	**4.493**	**.034**
Assets ($M)	.001	.004	.045	.832
PopChange	-.127	.090	2.004	.157
Homeowners	**.279**	**.122**	**5.264**	**.022**
Income ($000)	.105	.156	.458	.498
Percentage correct	76.5			
-2 Log likelihood	25.092			
Chi-square (sig)	16.102 (.007)			
N	34			

The logit results are very similar to the OLS results, thus enhancing our confidence in both. Again, only organizational age and the percentage of homeowners are statistically significant influences on the choice of strategy for California community foundations. Older foundations and those located in stable communities are more likely to pursue a role as a community leader. Conversely, younger foundations, and those located in communities with a smaller proportion of homeowners, are more likely to be focused on donor services. The implications of our results are discussed in the next section.

5. Policy Implications and Conclusion

The results provide some support for our life-cycle model of the strategic choices of community foundations. Most community foundations were found to start with a donor services strategy. Our analysis of current strategies revealed that older foundations are more likely to pursue a community leadership role, while younger foundations are more likely to focus on donor services. This age effect holds after controlling for assets and community characteristics.

These findings have significant policy implications. As noted earlier, some have called on community foundations to assume a greater role in local governance, and others have argued for their increased role in community development. These results, however, suggest that we must temper our expectations. The large increase in the number of community foundations over the past decade means that many are very young. Our results suggest that young foundations cannot be expected to have developed the community connections and expertise that would enable them to be effective in such roles. Conversely, this work supports the capacity of older foundations and those located in stable communities to assume a leadership role in community development.

Our results, however, must be viewed as preliminary, due primarily to the relatively small number of community foundations studied. Even though this work analyzes a larger number of community foundations than previous studies, work on even larger populations is needed before we can draw firm conclusions. In addition, the behavior of California community foundations may be different from those in other regions. In particular, California's lower than average rates of home ownership raise questions about our ability to generalize this finding. On the other hand, the general forces driving increased attention to organizational strategy -- changing economic conditions, the professionalization of the sector, and competition in the donor services market -- are common to all U.S. community foundations. More importantly, our findings suggest that competition enhances the movement toward a community leadership strategy. Since the competitive pressures on community foundations are not likely to abate, this suggests that more will choose this strategy and thus enhance their potential for a role in community development.

Despite the limitations of the sample, these results are interesting. They provide initial support for a life-cycle model of the organizational strategies of philanthropic organizations, and thus offer a promising avenue for new research as we continue to explore the decision making of these organizations. They also counsel caution for our expectations of an expanded role for philanthropic organizations in local governance. Community foundations, although uniquely positioned to assume a greater community leadership role, may not in many cases have the capacity to do so for some time.

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Appendix: Executive Director Interviews

Community Foundation	Contact Name	Interview Completed
Amador Community Foundation	Shannon Lowery	7/21/2004
Calaveras Community Foundation	Trudy Lackey	3/16/2004
California Community Foundation	Joe Lumarda	3/19/2004
East Bay Community Foundation	Michael Howe	3/3/2004
El Dorado Community Foundation	Stephen Healy	2/2/2004
Fresno Regional Foundation	Jesse Arreguin	3/3/2004
Glendale Community Foundation	Tom Miller	1/26/2004
Humboldt Area Foundation	Peter Pennekamp	3/24/2004
Kern County Community Foundation	Noel Daniels	3/19/2004
Marin Community Foundation	Thomas Peters	2/9/2004
Community Foundation of Mendocino County	Susanne Norgard	3/15/2004
Community Foundation for Monterey County	Todd Lueders	1/27/2004
Community Foundation of Napa Valley	Terence Mulligan	3/31/2004
North Valley Community Foundation	Patty Call	2/27/2004
Orange County Community Foundation	Shelley Hoss	2/10/2004
Pasadena Community Foundation	Jennifer Flemming Devoll	3/23/2004
Peninsula Community Foundation	Sterling Speirn	3/12/2004
Plumas Community Foundation	Michele Piller	3/30/2004
Community Foundation Serving Riverside and San Bernardino Counties	Sheryl Alexander	2/4/2004
Sacramento Regional Community Foundation	Janice Gow Petty	3/16/2004
Community Foundation of San Benito	Gary Byrne	3/23/2004
San Diego Foundation	Bob Kelley	3/29/2004
San Francisco Foundation	Sandra Hernandez	8/2/2004
San Luis Obispo County Community Foundation	Dave Edwards	1/28/2004
Santa Barbara Foundation	Chuck Slosser	1/26/2004
Community Foundation of Santa Cruz	Lance Linares	2/2/2004
Shasta Regional Community Foundation	Kathy Ann Anderson	2/17/2004
Community Foundation Silicon Valley	Peter Hero (information provided by staff)	7/28/2004
Solano Community Foundation	Stephanie Wolf	4/1/2004
Community Foundation of Sonoma County	Kay Marquet	6/11/2004
Sonora Area Foundation	Mick Grimes	1/23/2004
Stanislaus Community Foundation	Patty Stone	3/22/2004
Truckee Tahoe Community Foundation	Lisa Dobey	2/13/2004
Ventura County Community Foundation	Hugh Ralston	3/29/2004

Interview Protocol and Instrument

The CEOs listed above participated in 30-45 minute one-on-one telephone interviews. All interviews were conducted by the same researcher over the course of seven months. The interview instrument consisted of the 25 open-ended questions listed below, grouped into 5 categories. Questions were not provided ahead of time. The interviewer did not provide options from which to choose answers. In most cases, questions led to less-structured conversations about community foundations.

Strategic Models

1.) What would you say is the foundation's main strategic focus at this time?
2.) How has the foundation's strategy changed with each decade?
3.) What were the particular events that caused shifts in strategy?
4.) Was there a deliberate decision to shift?
5.) Who was responsible for the decision?
6.) What percentage of your time/staff's time is spent working with donors, partners, nonprofits?

Organizational Characteristics

7.) What percentage of your grants is currently made with discretionary funds?
8.) How have your discretionary funds fluctuated with growth in your endowment?
9.) How do the demographics of your board reflect the community you serve, i.e., geographically and culturally?
10.) How have board structure and composition changed over time?
11.) How many of your board members are considered major donors?

Major Donors

12.) Was your foundation started with a charter gift by a major donor? If yes, what percentage of the foundation's assets did the gift represent?
13.) Was the original mission of the foundation dictated by this gift?
14.) Have there been other major gifts of this size? How many? When?
15.) How have major gifts changed the scope of activity for the foundation?
16.) Do you feel that donor advised funds inhibit your ability to respond to specific needs in your community?

Social Venture Partners

17.) Who are the foundation's primary strategic partners (e.g. private foundations, the United Way) in the community?
18.) What is the nature of the relationship with those partners?
19.) Were those partnerships formed around specific projects?
20.) How have those partnerships strengthened or hindered the foundation's efforts?
21.) Are partnerships more common during difficult financial times?

Community Characteristics

22.) How would you characterize the philanthropic tendencies of your community?
23.) Is there a large potential for increasing your donor base in the community?
24.) How do you publicize your efforts in the community?
25.) How would you describe your "typical" donor?