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Seeking Shared Success: Business Model Innovation through Mergers, Affiliations, and Alliances

STORIES AND INSIGHTS FROM ACROSS THE COMMUNITY FOUNDATION FIELD

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COUNCIL on FOUNDATIONS
Community Foundations Leadership Team

FEBRUARY 2011

Acknowledgements

CF Insights and FSG Social Impact Advisors would like to thank the Council on Foundations' Community Foundations Leadership Team (CFLT) for identifying the need to increase dialogue about business model innovation across the community foundation field. This report is one of several resources initiated by the CFLT for the benefit of all community foundations. CF Insights is an implementation partner of the CFLT.

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This report is designed to spark thinking about business model options, but does not address the legal or tax issues raised by these options. A community foundation should work with its legal and tax advisors when designing a new structure to ensure continuing compliance with the law and to identify any tax implications of the arrangement.

Executive Summary

The challenges of the recent financial downturn have inspired many community foundations to find new paths to business model innovation. Alliances, affiliations, and mergers offer one path to "shared success." Seeking shared success with other community foundations is one intriguing way to innovate and change the business model equation.

Is it often assumed that cost reductions are the primary goal of an alliance, affiliation, or merger. However, cost savings can be elusive or deferred due to potentially significant up-front investments. A range of other long-term benefits exist and should be considered as factors in the decision to pursue a new structure. Stories from a variety of community foundations describe the potential of alliances, affiliations, and mergers to not only create cost efficiencies, but also leverage expertise, promote philanthropy, and amplify community leadership and program strategy.

The message from seasoned community foundation executives experienced with alliances, affiliations, and mergers is clear: more community foundations should be open to new structural possibilities. Thinking strategically about the varied options available to engage donors effectively, manage administrative tasks efficiently, and increase grantmaking and community leadership creates new options for developing a distinct value proposition.

"My advice to community foundations is to be open to possibilities. Think bigger than who you are to maximize all the opportunities that can benefit the community."

Caretha Coleman, Board Member,
Silicon Valley Community Foundation

"Don't be afraid to have a vision. I think the most important thing is to agree that a partnership is worth pursuing and have the dream."

Pam Montgomery, Executive Director,
Community Foundation of the Gunnison Valley

However, it is important to pursue a new structure with eyes wide open. Initiating an alliance, affiliation, or merger is a worthy aim made particularly challenging by the question of how to craft a win-win situation for all parties involved. Experienced leaders emphasize the importance of building trust and clearly articulating shifts in roles and responsibilities. Despite the complexity, there are examples of success in the field that offer insight into how to move forward on the path of shared success and determine which structural option makes sense for your circumstances.

The purpose of this report is to provide guidance to those interested in examining the potential for shared success that new structures can offer. In this report you will find:

- Perspectives of community foundation leaders
- Tools for considering a new structure
- Case studies from six community foundations

We hope that the advice and observations included in this report will help more community foundations evaluate the viability of alliances, affiliations, and mergers as a path to enhanced sustainability and greater impact. In particular, we urge you to consider the following questions:

Can a new structure put my foundation on a path to more sustainable growth?

What structural options are available to help my foundation effectively capture value from and better serve our community constituents?

Overview of Options—Structures for Shared Success

Alliances
A community foundation or other entity provides an umbrella of core administrative services for a fee to other incorporated community foundations.

Affiliations
A "host foundation" provides services to regional affiliates that operate as part of the host foundation, but maintain local grantmaking authority and local representation.

Mergers
Two community foundations come together to form a single consolidated community foundation serving a defined region.

I. Seeking Shared Success: Where to Begin

Introduction

The recent economic crisis has intensified the financial pressure and mission-driven expectations for community foundations, increasing the appeal of collaboration within the field. According to a survey of 95 community foundations conducted by CF Insights at the height of the market downturn in the spring of 2009, the vast majority of foundations were experiencing budget shortfalls and expecting administrative fees to cover only 60-65% of operating budgets. To make up for this gap, two-thirds planned to tap into operating reserves and many needed to leverage internal grants to fund operations. However, many realized that these measures would not be enough to solidify the long-term viability of their operating models. Indeed, at the time 50% of foundations reported an intention to explore new partnerships to increase revenue and strengthen future sustainability. Almost two years later, this interest in strengthening business models through partnerships and resource sharing continues, in many cases with an increased sense of urgency.

Even before the crisis it was fairly common to hear community foundations speak in broad terms about the importance of sharing resources and finding shared success. But the level of stated interest does not match the relatively rare instances of mergers, new affiliations between existing community foundations, and the formation of alliances. The vision of what it means to share success varies quite a bit, often between potential partners, and as a result many of these visions are difficult to realize. The word "share" brings to mind the notion of joining with others. But "share" also implies dividing or allocating resources in some predetermined way. It can imply a permanent or temporary situation; it can result in complete alignment; it can mean giving or receiving part of something larger. Depending on your view of the concept and your ultimate goals, seeking shared success can mean considering different types of structural arrangements.

Creating a new structure requires a high level of commitment and a willingness to cede some control. Nevertheless many community foundations have endured the process and experienced positive outcomes as a result. The round of community foundation alliances, affiliations, and mergers initiated before or during the economic crisis offers a fresh opportunity for the field to learn from one another. By understanding the motivations for a particular decision, the discoveries made along the way, the definitions of shared success, and the lessons learned as structures have been put to the test, community foundation leaders can better chart a path to shared success.

Despite the breadth and depth of the advice from this diverse set of community foundations, there are no easy answers concerning the right solution for your community foundation. Our goal is to help you access the experience of your peers and structure your own process of decision-making. Shared success may be elusive, but those who have found the right opportunities and committed themselves to the effort report that the end result is worth it.

"This is the work of neighbors partnering with one another and trusting each other. We need to extrapolate from the success stories what you need to consider for partnering in any local environment."

Donnell Mersereau, Executive Director, Midwest Community Foundations' Ventures

Study Approach

CF Insights conducted 42 interviews with community foundation executives and board members representing 26 foundations ranging in size from $2M to $1.8B for insights on the pursuit, benefits, and challenges associated with alliances, affiliations, and mergers.

Our perspective is informed by a variety of useful pieces on community foundation structures, including case studies, surveys, and discussions featured in:

- *Being Alive to the Potential Benefits of Collaborations and Mergers* by Community Foundation Network
- *Better Together: Regional Alliances and Small Community Foundation Sustainability* by Council of Michigan Foundations, et al.
- *The Big Are Big and the Small Are Many: A View From the Community Foundation Field* by Leslie Lilly
- *Community Foundation Strategic Alliances* by the Community Foundations of Canada
- *Covering Rural Territory: A Framework of Rural Services Structures for Community Foundations* by Aspen Institute
- *Growing Local Philanthropy : The Role and Reach of Community Foundations* by Aspen Institute
- CFLT Idea Lab Project *Feasibility and Options for Consolidation of Back Office Operations*

When and Why Should You Consider a New Structure for Shared Success?

The economic environment we are operating in has made it a necessity to ask difficult questions about the sustainability of the community foundation business model. Faced with resource constraints and increased community need, many foundations are open to considering changes in the way they operate. Seeking shared success with other community foundations presents one way to innovate and change the business model equation.

From a business model perspective, today's economic landscape naturally focuses the mind on the *financial* motivations for shared success. Indeed, the (mis)assumption that increasing asset size is the main driver for shared success prevails. However, there are a variety of other drivers – often more meaningful – that can inspire community foundations to consider new structures:

- A change in **leadership** or loss of key staff
- A feeling of **stagnating growth** or an outdated strategy
- A sense that the notion of **community is broadening** to include territory served by other community foundations
- An interest in **expanding philanthropy** across a broader territory
- A request or pool of funds available to **form a new** community foundation
- A desire to **redeploy staff time** toward externally-facing activities and away from administrative tasks

"For us, the affiliate program is not a development activity, but a leadership activity and a way to overcome the geographic issues we face as a state-wide community foundation."

Cathy Cooney, Program Director, The Montana Community Foundation

The Enigma of Asset Size

Community foundations agree that the conditions for success have become more rigorous and multifaceted as the expectations of National Standards, donors, grantees, and communities have increased. However, the role asset size plays in determining the ability to independently manage a successful and sophisticated community foundation remains a hotly debated question. As the quotes below reflect, there are a variety of points of view on the asset level needed to be a sustainable community foundation.

Perspectives on the field about asset size

- "Twenty-five years ago when I came into the field, there was a belief that if a community foundation got to $5M in assets they could be operationally self-sufficient and rise like a phoenix from there. Some foundations have seen accelerated growth curves, but in our own experience $5M is not the threshold for success. I would guess the threshold is above $25M and maybe in the $50-75M range." - *Darcy Oman, CEO, The Community Foundation Serving Richmond and Central Virginia*
- "We might be in a position to expand our affiliate system to address broader community needs when we reach $30M." - *Jane Stevenson, President, St. Croix Valley Community Foundation*
- "We are $67M in assets and have affiliates in 77 of 93 counties in Nebraska. We make it work with a diversified revenue base." - *Jeff Yost, CEO, Nebraska Community Foundation*
- "When I first started in this field 20 years ago, I think you needed to have $20-30M in assets to survive. Today I talk to community foundations of $200-250M that say they cannot meet their fiduciary responsibilities and donor expectations. And those responsibilities and expectations will only continue to increase in the future." - *Emmett Carson, CEO, Silicon Valley Community Foundation*

The bottom line is that asset size is one factor in determining the scale and impact a community foundation can achieve, but should not be the driving factor in considering an alliance, affiliation, or merger. Such structures should not be seen as the magic bullet that can double or triple asset size, but rather as a way to potentially create long run scale economies and leverage existing resources.

How Do You Find the Right Path Forward?

Business model innovation does not solely come in the form of a structural change. Instead, it may be more appropriate for you to think about other ways to address your concerns, for instance by increasing marketing staff, hiring a fundraiser, or investing in technology.

In order to help you determine whether seeking shared success might be an option for you, we have developed a set of questions for community foundation leaders to consider. As you address the key questions you will begin to clarify what is most important to you and what structural option will suit your needs.

Key Questions for Consideration

Impetus

- Why are we considering a change to our operating model?
- Is a structural change the best path for us? Have we considered other options?
- What is the central issue we would like a new structure to solve?
- Why is now the right time for us to consider a change?

Vision

- What are key considerations – such as the identity, strategy, or leadership of the foundation – that might direct us toward a specific kind of structure?
- How must a structural change help to reflect our mission, core values, goals and strategies?
- What would a successful structure look like?
- What is our ideal time frame for negotiating a new structure?

Getting Specific

- What are our non-negotiables?
- What types of assurances would we need to consider a new structure?
- What level of financial resources and staff time are we willing to invest in due diligence and integration processes? Do we have these resources available to us now, and if not, how do we go about ensuring we do?

Benefit/Risk Equation

- What are the key opportunities and risks at the operational, organizational, and stakeholder levels?
  - How would our community, grantees, donors, and employees benefit from a new structure? What are the risks presented by a new structure for these stakeholders?
  - How would our foundation benefit from the unique circumstances and expertise of another community foundation—for example, gaining community knowledge and expertise, increasing the potential donor base, addressing a leadership need, building up assets, or developing more sophisticated infrastructure)?
  - What could we imagine would prevent us from moving forward with a new structural arrangement—whether a new alliance, affiliation, or merger?

II. Defining the Options

So, What Are the Options?

Community foundations interested in seeking shared success face a range of options. Determining the best option depends on your specific needs and a thorough understanding of the tradeoffs for each. Through an exploration of examples and experience from the field, we have focused on three opportunities—alliances, affiliations, and mergers—and the circumstances under which each of these structures makes sense to pursue.

Certainly, there are other options to consider beyond those defined here, such as:

- Programmatic alliances, in which a group of community foundations join forces to address a social problem impacting a region
- Mergers outside of the community foundation field, for instance with United Way or other community philanthropists
- Partnerships with for-profit organizations, especially for the provision of back office support

However, the scope of this paper focuses on those structures that currently receive the most attention and had a higher likelihood of adoption by the field in recent years.

Overview - Structural Options for Shared Success

Alliances	Affiliations	Mergers
A community foundation or other entity provides an umbrella of core administrative services for a fee to other incorporated community foundations	A “host foundation” provides services to regional affiliates that operate as part of the host foundation, but maintain local grantmaking authority and local representation	Two community foundations come together to form a single consolidated community foundation serving a defined region

> **“I try to stress to the community foundations in our alliance that we are much stronger together than separate.”**
>
> *Marilyn Klenck, former CEO, Community Foundation Alliance, Indiana*

> **“My advice to community foundations is to consider partnerships. The concept is good. Though it is necessary to do your homework and make sure the structure is a good fit for you.”**
>
> *Hope Flores, Executive Director, The Community Foundation Partnership, Inc.*

Simplifying the Lexicon

While we have attempted to clarify the options, it is important to recognize that no universal lexicon exists today to describe different structural relationships within the community foundation field. What is an alliance to one, is an affiliation to another; a merger may be communicated as a loose partnership; several community foundations manage both affiliates and an alliance structure. For the purpose of examining the merits and drawbacks of different structures, we provide the following table of expanded definitions for an alliance, affiliation, and a merger.[1]

Characteristics	Alliance	Affiliation	Merger
Definition	• A community foundation or other entity provides an umbrella of core administrative services for a fee to other incorporated community foundations • Examples: Upper Peninsula, Greater Horizons, Calhoun County	• A "host" provides services to regional affiliates that operate as part of the host foundation but maintain local grantmaking authority and local representation • Examples: Pittsburgh/ Westmoreland, Nebraska, Ozarks, Arizona, Montana, Richmond/Central Virginia, Greater Salina, Humboldt, Columbus OH, New Jersey, Oregon	• Two community foundations come together to become a single consolidated community foundation serving a defined region • Examples: Silicon Valley, Eastern Connecticut, Fairfield, Hampton Roads, St. Croix Valley, Gunnison Valley, Holland Zeeland
Governance and Agreements	• Individual CFs have own 501(c)(3) status and board • Contracts establish policies, often seen as fee-for-service, with easy exit	• Individual CFs are funds or supporting organizations, a few maintain 501(c)(3) status • Separate board—often advisory–guides development and grantmaking at local level	• Single board governs entire service area, rarely maintain separate component funds for specific sub-regions
Identity	• Distinct identities	• Distinct identities, but promote affiliation as a strength	• Combined identity, often new
Primary Motivations for Structure	• Interest in finding scale economies and cost savings • Centralize expertise in back office CF capabilities and focus local staff on development, grantmaking, and leadership	• Promote the growth of philanthropy, both locally and regionally, in association with the brand of an established CF • Centralize expertise in back office CF capabilities and focus local staff on development, grantmaking, and leadership	• Pursue opportunities for leadership, growth, and new donor engagement opportunities • Respond to market overlap or confusion • Focus a larger pool of staff on the highest value work
Scale Economies and Cost Savings	• Clear savings through fee-for-service arrangements • Most significant cost savings for start-ups	• Evident for start-up affiliates of host foundation, though scale economies hard to realize for host foundation	• Limited in the short term; scale and cost efficiencies may be realized over time
Evolution	• Can easily be structured as a temporary arrangement	• Possibility of being a temporary arrangement	• Permanent arrangement
Cost and Revenue Sharing Mechanisms	• Clear contracts with set fees and policies	• Variety of cost-sharing or transfer pricing arrangements, often but not always transparent to affiliates	• Funding for initial costs of due diligence, integration process
Primary Success Factors	• Leadership's recognition of value of services	• Engaged local leadership at the affiliate; host foundation driven by mission to serve regional area	• Recognition of mutual benefit

[1] This set of definitions is informed by work from Aspen Institute and the research of the Southwestern Pennsylvania Community Foundation Group sponsored by a CFLT Idea Lab grant.

III. Choosing Your Best Option

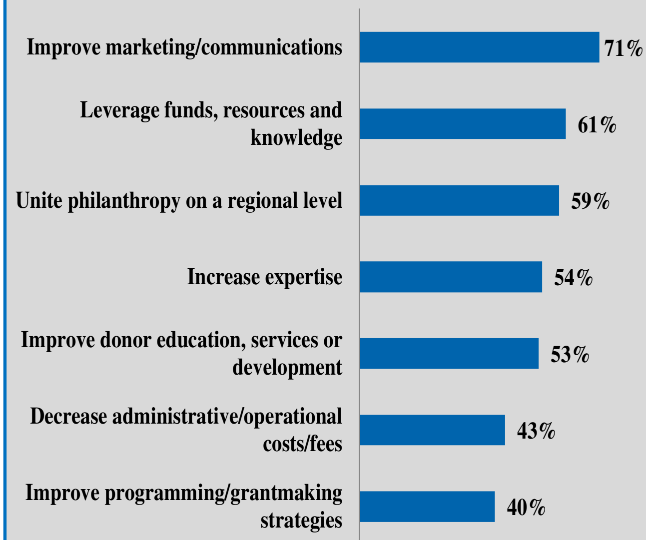
What Are the Benefits of Each Option?

In the 2005 survey that informed "*Better Together: Regional Alliances and Small Community Foundation Sustainability*," community foundations were most likely to view partnerships (defined by the survey as "alliances") as improving visibility or market positioning, helping leverage resources, aligning philanthropy, or increasing expertise. Five years later, conversations with community foundation leaders engaged in alliances, affiliations, and mergers highlighted similar benefits:

- Ability to gain access to expertise and talent that none could afford alone
- Improvement to the quality of service
- Greater impact to beneficiaries
- Ability to reach a more diverse group of beneficiaries and donors
- Access to funding
- Cost savings

Better Together Survey Findings

Top Responses to the Question: "What can successful alliances accomplish for your community foundation?"



Alliances, affiliations, and mergers deliver many of these benefits, but each to a different degree. The following exhibit identifies four key benefits associated with the three structures and illustrates the likelihood of realizing those benefits.

	Benefits			
Structure	Reap Economies of Scale and Cost Savings	Leverage Specialized Expertise	Better Promote Philanthropy and Engage Donors in Region	Amplify Community Leadership and Program Strategy
Alliance	★★★	★★★	★★	★
Affiliation	★★★ For Affiliate	★★★ For Affiliate	★★★ For Host and Affiliate	★★ For Host and Affiliate
Merger	★	★★	★★★	★★★

Legend ★★★ Primary Benefit ★★ Secondary Benefit ★ Occasional or Long-term Benefit

What Are the Barriers?

The perceived benefits of alliances, affiliations, and mergers make them a popular topic for consideration and exploration. Such structures are an emerging trend in the field, yet it is important to understand the difficulty associated with realizing business model innovation through shared success.

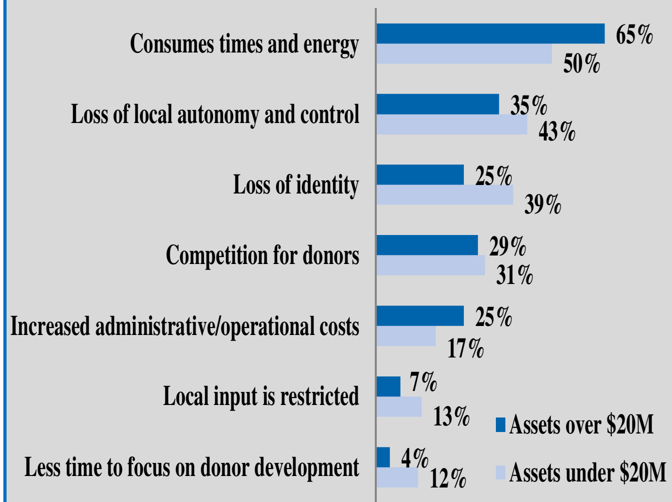
Several barriers to partnerships were specified by "*Better Together*" survey respondents, as illustrated in the graph at right. The most commonly cited challenges shared in our interviews included the following:

- Lack of resources or capacity to invest in change
- Lack of understanding about new structural options
- Concern over maintaining local focus and identity
- Mismatch between missions of potential partners
- Personality or cultural conflicts
- Inability to get past "non-negotiable" considerations

A final challenge is the timing it takes for a new structure to begin to payoff financially. Cost savings can be elusive and economies of scale or scope take longer to materialize than other potential benefits.

Better Together Survey Findings

Top Responses to the Question: "What are the challenges for community foundations working together?"



> **"You don't go straight from point A to point B. The merger process is a rocky road."**
>
> *Greg Avis, former Board Chair, Silicon Valley Community Foundation*

> **"People are afraid of change and fail to recognize the value of what a partnership offers. Instead, they are more focused on what they have to give up in order for the partnership to succeed."**
>
> *Debra Millican, Office Manager, Community Foundation of the Upper Peninsula*

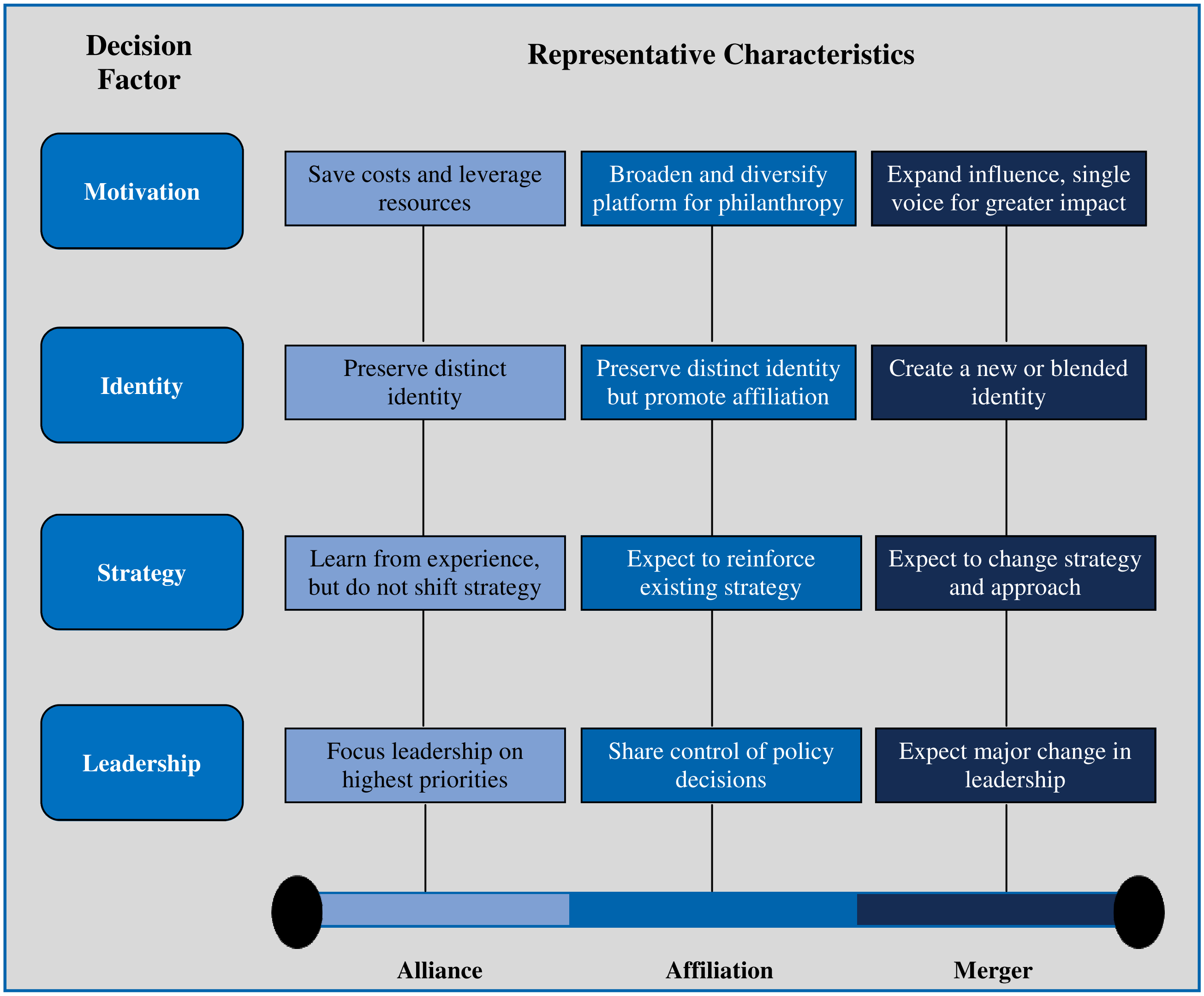
What Structure Is Right For You?

Each structure offers different benefits and risks. For instance, the benefits of alliances are more straightforward and transparent than other options, but these arrangements can be more temporary. Successful mergers require a confluence of circumstances, but are more permanent and can be a surer path to long term alignment of mission-driven goals. Affiliations offer a compromise between a looser alliance and a complete merger, but require flexibility and a delicate balance of shared control; they are frequently developed for start-up community foundations supported by a "host foundation" with experience and resources to invest.

In gathering advice from a varied set of community foundation leaders who have successfully navigated the path to shared success, four areas emerged as critical decision factors for determining the best option for your foundation.

1. **Motivation** - Be honest about your motivations for pursuing a particular structural option.
2. **Identity** - Know what is important about preserving or changing your identity in the community.
3. **Strategy** - Determine the extent to which you are open to shifting priorities and learning from your partner and community constituents as you make a change.
4. **Leadership** - Understand that a new structure will require changes in leadership or a shift in the role of leadership, including both executive staff and the board.

The exhibit below begins to clarify the appropriate options for you to consider, depending on your situation.



Spotlight—Discussion Tool

You will find a Board and Staff Discussion Facilitation and Self-Assessment tool in the Appendix. This resource will help you think about you motivations, your needs, and your non-negotiables when it comes to identity, strategy, and leadership changes.

IV. Looking Deeper at the Options

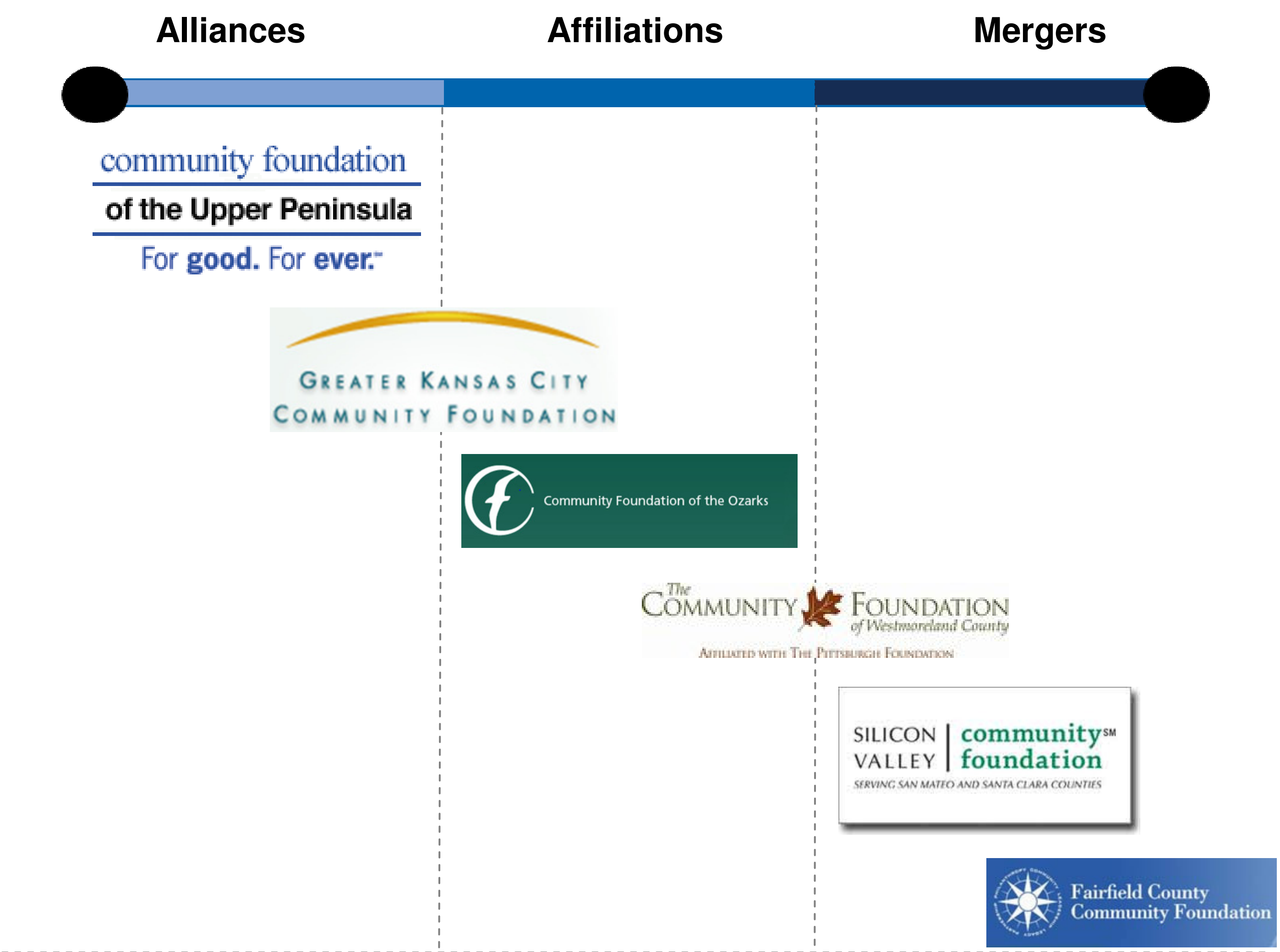
What Are the Specifics for Each Option?

The next pages provide specific information on success factors and barriers for each of the three options.

Additionally, case studies from six community foundations included in the appendix represent some of the anecdotes from the field regarding the formation and sustained success of alliances, affiliations, and mergers. Interviewees from the case study foundations provided insights into their motivations for initiating a structural change, impacts on some of the key decision factors, as well as factors for success.

There is not a "one size fits all" approach to designing a structure despite what our simplification of the definitions suggests. However, the advice and insights from the case studies should help to further clarify whether seeking shared success is an option for your community foundation.

Case Studies (Included in Appendix)



A. Alliance

Does an Alliance Fit Your Needs?

Typical Scenario

Fee-for-service arrangement where alliance member (the "client") reduces their focus on back office and administrative infrastructure and focus staff on donor engagement and grantmaking. Community foundation providing services benefits from economies of scale and is able to deepen staff expertise about community foundation operations.

Structure	Reap Economies of Scale and Cost Savings	Leverage Specialized Expertise	Better Promote Philanthropy and Engage Donors in Region	Amplify Community Leadership and Program Strategy
Alliance	★★★	★★★	★★	★

Factors for Success

- Create clear cost savings for the alliance member
- Develop a fee structure that ensures the service provider breaks even
- Have flexibility of service offerings and pricing to accommodate changing needs over time
- Offer a stable and experienced staff that can provide quality services
- Develop alliance member's comfort with tradeoff between complete independence and costs
- Ensure clear expectations and transparency of terms
- Establish system for evaluating continued success of alliance needs

"It is important to negotiate well the terms and length of the alliance. You should discuss options for addressing various scenarios that are of concern and decide what the end goals are."

Brenda Hunt, CEO, Battle Creek Community Foundation, Southwest Michigan Alliance

Complications and Barriers

- Identifying definitive cost savings for the alliance member
  - Earlier research found that sharing of back office by a group of community foundations would result in cost savings of up to 20%, but that more likely outcomes were improved service, ability to manage future cost increases, and better utilization of staff.[2]
- Raising initial funding to create infrastructure for a new alliance, if necessary
- Developing a set of offerings that can meet different needs of alliance members
- Addressing concerns about whether moving to a shared service arrangement will result in cutting or redirecting staff
- Reaching a level of comfort for giving up control according to the terms of the alliance agreement
- Developing common technological platforms as needed

"The community foundations we support are able to focus their resources on donor development and community leadership and can rest easier knowing they have a comprehensive back office solution ensuring best practices for fund accounting and administrative oversight."

Brenda Chumley, Executive Director, Greater Horizons, Greater Kansas City Community Foundation

[2] CFLT Idea Lab Project "The Feasibility and Options for Consolidation of Back Office Operations Project Report," Thomas Hay, June 2009.

B. Affiliation

Does an Affiliation Fit Your Needs?

Typical Scenario

Affiliate structures vary, but most common is a model in which affiliates are governed by an advisory board that focuses its efforts on donor engagement and grantmaking, do not have their own 501(c)(3) status, pool investments with the host community foundation, and follow administrative policies determined with the host foundation.

Structure	Reap Economies of Scale and Cost Savings	Leverage Specialized Expertise	Better Promote Philanthropy and Engage Donors in Region	Amplify Community Leadership and Program Strategy
Affiliation	★★★ For Affiliate	★★★ For Affiliate	★★★ For Host and Affiliate	★★ For Host and Affiliate

Factors for Success

- Invest in the affiliation from a mission-driven perspective to build philanthropic capacity across the region
- Develop mutual trust and understanding between host foundation and affiliate about motivations and strategy
- Offer flexibility and transparency about roles, policies, and mechanisms for sharing costs and revenues, especially as the relationship matures
- Determine the right mix for representation in governance, for instance, is it important for the affiliate to have a seat on the host foundation's board?
- Create an assessment process for determining readiness of community for supporting a new community foundation that focuses on the availability of donors, volunteers, and advisory board members
- Establish requirements for endowment building at the affiliate
- Clarify affiliate's understanding of the benefits of the relationship
- Stress the importance of programmatic and community leadership work as part of the strategy

"Our most successful affiliates have a strong person at the leadership helm. It is not always easy to find such a person and in that case you have to be prepared to provide a lot of support and education."

Betsy Wearing, Executive Director, Greater Salina Community Foundation

"Affiliates are the single most powerful community leadership and civic engagement effort that ACF has ever undertaken. It is long term and sustained work—not just a three year initiative."

Carla Roberts, former Vice President of Affiliates, Arizona Community Foundation

Complications and Barriers

- Perceived loss of control by the affiliate and potential donor concerns
- Ability for the host foundation to sustain initial and ongoing investment to build healthy affiliates
- Mislaid expectations by the affiliate community about fundraising responsibilities and on-going role of the host foundation
- Board turnover at the affiliate and finding the right leadership
- Balancing a decentralized structure with risk management

"We are committed to local control by our affiliates, but we still have to act as a good fiduciary."

Jeff Yost, CEO, Nebraska Community Foundation

"An affiliate structure allows everyone to do what they do best, to be more effective and efficient."

Brian Fogle, President, Community Foundation of the Ozarks

C. Merger

Does a Merger Fit Your Needs?

Typical Scenario

Two community foundations with adjacent or overlapping geographies come together in an opportune set of circumstances and redefine their collective value proposition to serve the region. The resulting merged entity may reflect some significant changes in staffing, governance, community leadership, offerings to community stakeholders, and/or identity for one or both of the foundations.

Structure	Reap Economies of Scale and Cost Savings	Leverage Specialized Expertise	Better Promote Philanthropy and Engage Donors in Region	Amplify Community Leadership and Program Strategy
Merger	★	★★	★★★	★★★

Factors for Success

- Seize a moment of opportunity created by a leadership void—and then have patience with the process
- Build trust at the highest levels of leadership, making sure that communications are open and motivations are clear
- Avoid becoming too focused on stumbling blocks that do not impact the long run success of the merger
- Be willing to make a very significant investment in the due diligence process, transaction costs, and implementation costs and raise money if possible
- Be open to learning from the other party and ultimately to making changes to strategy and approach
- Expect some resistance from stakeholders and prioritize communicating with them

"There needs to be a lot of respect shown to each party in the situation. If a larger organization is approached by a smaller organization, the larger entity needs to be willing to make modifications and honor the good work done by the smaller organization. Be generous."

Angelica Light, CEO, Hampton Roads Community Foundation

"We were fortunate. The right people were in the right place at the right time and the two boards were open to exploring better ways to do business. There must be clear benefits to both parties to make a merger successful."

William Vanderbilt, former Executive Director, The Community Foundation of the Holland/Zeeland Area

Complications and Barriers

- Culture and business model differences
- Donor and community concerns
- Crafting the right identity and branding solution for the context, at the right moment
- Philosophical differences in strategy
- Significant up-front financial commitment and/or staff time

"As a result of the merger, we can take a more large scale, integrated approach to community leadership and leverage more relationships across the region."

Alice Fitzpatrick, President, Community Foundation of Eastern Connecticut

V. Framing Your Due Diligence

How Do You Proceed?

Once you know your direction and have a vision of what success looks like, it is important to proceed methodically through a general set of due diligence assessments focusing on operational, organizational, donor, and community issues. Through each of these areas of due diligence, it is invaluable to define and measure success—and adjust course accordingly. Key issues to consider include:

- Operational issues
  - Have a thorough understanding of your business model today—including your strengths and vulnerabilities
  - Understand the types of IT and administrative changes that will result from the new structure
  - Conduct thorough due diligence–defining values, risks, parameters for partnership, current resources and potential growth opportunities
- Organizational issues
  - Get specific about roles and responsibilities, timeframe, decision-making processes, resources required and who will provide them
  - Develop agreements, governance and communication systems (internal and external), and mechanisms for conflict resolution
- Donor and community issues
  - Establish communication and transition plans
  - Be clear about the new value proposition offered as a result of the new structure

It is easy to overlook the importance of focusing on community relationships and organizational culture change in pursuing a new type of shared structure. Advice from peers suggests that: ***when embarking on a major structural change you should over-communicate with internal and external constituents, be patient in bringing people along, and overestimate the cost and time required to engage all the necessary stakeholders.***

The following table outlines each area for due diligence and their level of assessment complexity and importance to the successful initiation of a specific structure.

> **"Take your time, think it all the way through, do the due diligence, talk about everything. The worst thing is to have a big surprise after a decision has been made to move forward with a partnership."**
>
> *Martha Ambler, CFO, Hampton Roads Community Foundation*

★ Essential ✓ Possibility

		Level		Importance for		
	Key Issues	Complexity of Analysis	Impact on Success	Alliances	Affiliations	Mergers
Operational	Rationalizing processes	Medium	Low	★	★	★
	Linking IT Systems and administrative support	Medium	Medium/Low	★	★	★
Organizational	Reorganizing people to best align skills with needs	Medium	Medium	★	★	★
	Stabilizing the organization and addressing key employees' issues	High	High	✓	★	★
Donor	Developing communication strategy	Medium	High	✓	★	★
	Retaining and transitioning donors	Medium	High		✓	★
	Creating a new value proposition for donors	Medium/High	High		✓	★
Community	Developing communication strategy	Medium	High	✓	★	★
	Creating a new value proposition for the community	Medium/High	High		✓	★

VI. Conclusion

Despite the complexities, the community foundation field could benefit significantly by moving together toward a greater level of shared success. The growing demands on community foundations stress the importance of optimizing the business model. And while not every community foundation currently faces the right opportunity to share success, few community foundations can afford to overlook the benefits of new structures:

- Ability to leverage specialized expertise
- Positioning to better promote philanthropy and engage donors in the region
- Opportunities to amplify community leadership and program strategy
- Economies of scale and cost savings

No matter which definition of "share" is most central to your thinking and which option makes sense to consider, the lessons from across the field about successfully navigating shared success boil down to a few basic principles: develop trust and clear communications with your partner, understand the motivations and expectations of each partner, and recognize the process as an evolution but never lose sight of the goals. While the list is short, keeping these in mind is perhaps the most essential precursor to exploring options for shared success.

Heed the Advice of Your Peers

In moving forward to consider the possibilities, colleagues from across the field who have had success innovating the business model with new structures offer a wealth of advice.

Focus on building trust and developing open communications in early discussions

- "As much as you think you are over-communicating, you are probably not. No matter how much you communicate it is often not enough." - *Caretha Coleman, Board Member, Silicon Valley Community Foundation*

- "Keeping open communication with the two boards was very important. Each time a new issue was raised we would meet with the directors. Face to face meetings in a small setting were the most effective means of communicating." - *Tim Fretthold, Board Officer, Community Foundation of the Gunnison Valley*

- "It is very important to build the trust between different areas. You need to forget the discussions about the infrastructure and talk about building trust first." - *Kevin Hartwick, Board Member, Humboldt Area Foundation*

- "Our affiliate model is a great opportunity to increase sustainability for all members. At times it has been a struggle to get everyone on the same page; you have to be flexible and open. Successful partnerships cannot be about power and control, instead they have to be about the good of the whole." - *Terri Johnson, Executive Director, Northern Indiana Community Foundation*

Identify core motivations and test alignment of potential partners' expectations

- "You have to be clear about the value each organization gets from the partnership. Also, being explicit about the sought after benefits will lead you to determine which structure is right for you." - *Grant Oliphant, CEO, The Pittsburgh Foundation*

- "If you enter into a situation where the attitude is, 'we think we're doing them a favor and they think they're doing us a favor,' then that's a bad dynamic for a partnership and it's easy to get into situation where somebody may take their marbles and go home." - *Hans Dekker, President, Community Foundation of New Jersey*

- "For a smaller, emerging community foundation considering a partnership, it's important to vet your partner. These partnerships are about service and added value. You do not want to partner with someone that does not understand this." - *Steven Moore, Associate Director for Donor Relations and Regional Giving, The Columbus Foundation*

Recognize that the process includes some uncertainty, and will be an evolution

- "Be up front and forthright about what you don't know. When I was asked things by people in open sessions that I did not know the answer to, I would say 'I don't know,' and as a result I was viewed as being up front with people. I told people 'there are going to be changes, but I don't know what they will be.'" - *Emmett Carson, CEO, Silicon Valley Community Foundation*

- "Be sure that people understand that the partnership is an evolution and should not remain static. Communities grow and change and as a result both partners need to adjust to that growth and change." - *Carla Roberts, former Vice President of Affiliates, Arizona Community Foundation*

Closing Thoughts

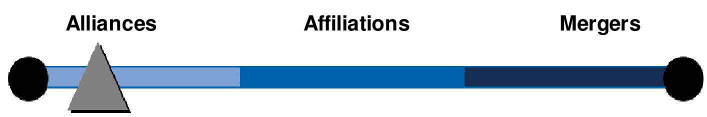
While alliances, affiliations, and mergers are not the right answer for all instances, they can be part of the business model solution for community foundation leaders who believe that philanthropy in their region should be more integrated, or for leaders who are willing to make tradeoffs between autonomy and the ability to leverage shared resources. Those who find the right opportunities to share success and proceed in a measured way will generate benefits that translate into greater sustainability and impact.

VII. Appendix

VII. Appendix

Case Study 1: Alliance

Name Community Foundation of the Upper Peninsula
Location Michigan
Assets $19M
Date Founded 2003



What was the primary motivation?	Community Foundation of the U.P.'s beginnings are steeped in collaboration. The Council of Michigan Foundations provided assistance and expertise to unite the various community foundations serving the U.P. region under one umbrella. Out of that initiative was born the Community Foundation of the U.P. and its affiliate model. Motivated by its desire to expand its mission to collaborate with and assist other community foundations, Community Foundation of the U.P. established its "Service Hub" in 2006 for independent, non-affiliated foundations to receive information management services for a monthly fee. Clients of the services are motivated by a desire to save on administrative costs, rely on a trusted entity with back office infrastructure in place, and focus their efforts elsewhere.
What decisions were made about identity?	As clients of the Service Hub, community foundations maintain their own identity.
What strategic decisions were made?	The independent foundations maintain their strategic direction as clients, including continued management of their own assets.
What leadership changes were made?	Service Hub clients maintain their own leadership and focus their efforts on fundraising and grantmaking, leaving the administrative work to Community Foundation of the U.P.

"An initial alliance in the Upper Peninsula proved to be ineffective simply because of its size. There were 15-16 community foundations in the area that had different interests and sometimes conflicts. They had no real reason to be together. A reconfiguration of eight community foundations interested in collaboration ultimately formed a better alliance."

Debra Millican, Office Manager, Community Foundation of the Upper PeninsulaCommunity Foundation

Key Success Factors

- ☑ **Created pricing system where Community Foundation of the U.P. breaks even with every contract**
- ☑ **Proved cost savings for clients and recognition of the value of relinquishing some control**
- ☑ **Developed systems to provide excellent customer service**

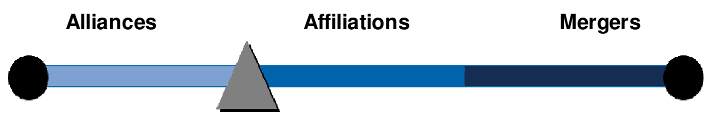
Case Study 2: Alliance and Affiliation

Name Greater Horizons, Greater Kansas City Community Foundation

Location Missouri

Assets $1B

Date Founded 1978



What was the primary motivation?	Kansas City established Greater Horizons as the management hub of its local affiliate and back office service offerings to independent community foundations nationally. Through Greater Horizons, Kansas City is able to focus on its mission to help the community foundation field grow, innovate product offerings, and assist smaller community foundations by offering the infrastructure needed for success. Community foundations who affiliate are often smaller and lack the funds to set up an administrative structure. Additionally, they seek the opportunity to publicly align themselves with Kansas City. Community foundations seeking back office support are generally motivated by a desire to cut costs and rely upon an organization that has significant infrastructure in place to meet their needs.
What decisions were made about identity?	Affiliates are component funds with Kansas City and adopt branding that is consistent with Kansas City. Non-affiliates are located outside of Kansas City's service area and maintain their own brands and identities.
What strategic decisions were made?	Affiliates pursue their continued strategy with work reinforced and informed by Kansas City. Independent community foundations maintain their strategic course. Both affiliates and independent foundations transfer their assets to Kansas City for management.
What leadership changes were made?	Affiliate leaders align themselves with the policies of Kansas City and shift focus to grantmaking and fundraising. Independent community foundations also shift focus, but maintain a separate management structure for decision-making.

"An essential aspect of our mission is to increase charitable giving, and by providing a business solution to those who may need it, we hope to see the field grow. At the same time we are strengthening our own organization by building the bench strength of our staff. Our clients' questions and thinking have helped us innovate."

Laura McKnight, CEO, Greater Kansas City Community Foundation

Key Success Factors

- ☑ **Developed flexibility in the terms of the relationship as needs can change over time**
- ☑ **Select affiliates and national community foundations based on business model alignment**
- ☑ **Created systems for the continued evaluation of the success of the relationships**

Case Study 3: Affiliation

Name Community Foundation of the Ozarks (CFO)

Location Missouri

Affiliates 42

Assets $121M

What was the primary motivation?	For CFO, an affiliate model felt like an effective way to engage in outreach to rural communities and offer administrative and investment support. CFO recognized the need to address issues on a regional level, rather than focusing within the city limits of Springfield. For affiliates, CFO offers the opportunity to run a successful foundation without the need to build up the infrastructure and legal support and to focus on the needs of the communities they know.
What decisions were made about identity?	CFO has a brand that most of the affiliates follow. CFO also has a communication and marketing staff that works closely with affiliates and developed a universal brochure that affiliates can use and customize to report to their donors and communities. CFO views one of its key responsibilities as helping affiliates with promotional and public outreach.
What strategic decisions were made?	CFO stresses in its communications with affiliates and potential affiliates that the affiliate model can strategically address the long term health of rural communities, which is tied to the generational transfer of wealth and increasing planned giving.
What leadership changes were made?	Boards of affiliates have the responsibility to develop funds and make grants based on the fact that they know their communities best. CFO, because of its infrastructure, can focus on the accounting and administrative work for the affiliate. CFO gives the local affiliate a lot of autonomy on development and granting of funds so they feel they have the local connection and independence.

"Communities that see a need for a foundation and speak with us recognize the value we can offer them. After a few conversations about what CFO could provide, one community told us 'why would we want to do it any other way than affiliate with you?'"

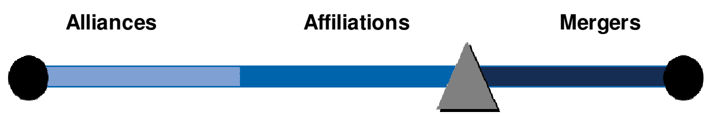
Brian Fogle, President, Community Foundation of the Ozarks

Key Success Factors

- ☑ **Received initial grant to fund the early outreach efforts that led to the addition of several affiliates to the system**
- ☑ **Require $30k in unrestricted endowment in order for a community foundation to affiliate**
- ☑ **Created governing document for affiliates addressing basic governance rules and provide on-going guidance on governance and building an effective board**
- ☑ **Established affiliate representation on CFO's board**
- ☑ **Created two regional offices whose sole purpose is to support the affiliates**
- ☑ **Established flexibility within the system so that each affiliate receives service offerings that address their primary needs and goals**

Case Study 4: Affiliation

Name	The Pittsburgh Foundation (TPF) and The Community Foundation of Westmoreland County (CFWC)
Location	Pennsylvania
Structure Finalized	2010



The Community Foundation of Westmoreland County
Affiliated with The Pittsburgh Foundation

"It is a merger that has been given the best features of an affiliation."

Grant Oliphant, CEO, The Pittsburgh Foundation

What was the primary motivation?	TPF and CFWC discussed a variety of options on how they might structure a partnership, including back office sharing and forming a Westmoreland Supporting Organization. However, after clarifying motivations and the benefits for each party, an affiliate structure was decided upon in which TPF provides back office, accounting, and donor services support and CFWC staff and board focus on fundraising and grantmaking in Westmoreland County.
What decisions were made about identity?	To move forward with the affiliation, it was imperative to CFWC staff and board that they preserve their identity and local autonomy instead of being fully submerged within TPF. Additionally, TPF determined that its reach into Westmoreland County would be more successful if managed through a local presence. As such, CFCW's external communications are branded as Community Foundation of Westmoreland County, Affiliated with The Pittsburgh Foundation.
What strategic decisions were made?	Both foundations are making a strategic push to address programmatic areas on a regional scale and to increase community impact and reach into Westmoreland County.
What leadership changes were made?	CFWC's board transitioned from a governance board to an advisory board and all staff became employees of TPF.

"By joining forces with The Pittsburgh Foundation we have effectively addressed operational and organizational issues because we can tap into the specialists at Pittsburgh. Once the transition is complete, 60% to 70% of our time will be spent out of the office, in the community – engaging in endowment building, convening, and match-making – allowing us to better meet the demand of what the community has been expecting from us."

Kirk Utzinger, Executive Director, The Community Foundation of Westmoreland County, Affiliated with The Pittsburgh Foundation

Key Success Factors

- ☑ **Created opportunity to focus on issues from a regional perspective**
- ☑ **Built momentum for Pittsburgh's community leadership and outreach**
- ☑ **Established system for addressing needs of Westmoreland donors and the community**
- ☑ **Maintained Westmoreland identity and expertise**
- ☑ **Built trust by creating a transparent decision-making process on policies and systems**
- ☑ **Vocalized and addressed expectations for both parties to create a win-win scenario**
- ☑ **Discussion initiated by CFCW, which removed the perception of a "take-over" by TPF**

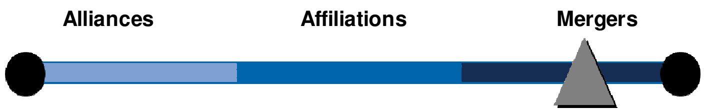
	Year Founded	Total Assets	Population Served	#FTEs
TPF	1945	$688 M	1.3 M	33
CFWC	1995	$15 M	362,000	5

Case Study 6: Merger

Name Community Foundation Silicon Valley (CFSV) and Peninsula Community Foundation (PCF)

Location California

Structure Finalized 2006



What was the primary motivation?	With increasingly overlapping service areas, CFSV and PCF decided that they could have greater influence in the community as one organization. While numerous options were assessed, including back office sharing and programmatic alignment, it was decided that the most effective impact would occur if the two foundations had a single board and one management structure that could be the voice for regional issues. A secondary motivation was to obtain some efficiencies of scale and lower costs.
What decisions were made about identity?	CFSV and PCF combined identities to gain greater strength in the community. With respect to the final name, which was described as a sticking point for some, development staff at PCF recognized that the service area was recognizable as Silicon Valley.
What strategic decisions were made?	As a merged entity CFSV and PCF have an increased voice in the community on regional issues and have made advances in advocacy and handling of complicated programmatic issues.
What leadership changes were made?	With the departure of PCF's leader and the ensuing retirement of CFSV's leader, the opportunity was created to bring in a new CEO unaffiliated with either organization to lead the merged foundation.

How are mergers of community foundations different from mergers in a for-profit environment?
While perspectives vary on this question, many community foundation board members have experience with M&A in a corporate environment and a few important differences were cited:

A true "merger of equals" is more complex than an acquisition and rarely found in the for-profit world. "Virtually always in a merger or acquisition in the corporate world there is a much clearer winner and loser. With community foundations you can't have that winner-loser mentality." - *Greg Avis, former Board Member, Silicon Valley Community Foundation*

Ownership by shareholders is very different from the sense of ownership felt by a community. "Shareholders only care at the end if you make more money. Communities don't measure success by asset acquisition." - *Emmett Carson, CEO, Silicon Valley Community Foundation*

In the for-profit world, M&A is more accepted and it is more of a way of life than in the non-profit world, making conversations easier to initiate.

Governance and leadership carries even more weight in a community foundation merger than in a corporate merger.

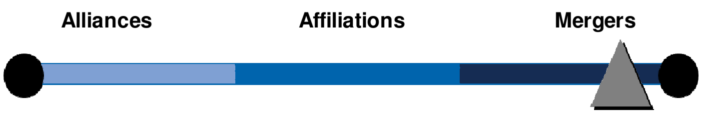
Key Success Factors

- ☑ **Through longer conversations about key decisions, managed the perception both internally and externally that neither PCF nor CFSV was the clear "winner" coming out of the merger, but rather the community**
- ☑ **Leveraged the complementary missions of each foundation—one foundation was more programmatic and the other was more donor/ corporate driven**
- ☑ **Developed good communication and openness between key players at each foundation**
- ☑ **Addressed mistrust and uncertainty among staff**
- ☑ **Received external funding of over $3M for the merger process**

	Year Founded	Total Assets	Population Served	#FTEs
CFSV	1954	$919 M	1.8M	48
PCF	1964	$612 M	1M	59

Case Study 7: Merger

Name	Fairfield County Community Foundation (FCCF) and Greater Bridgeport Area Foundation (GBAF)
Location	Connecticut
Structure Finalized	2008



What was the primary motivation?	FCCF is guided by a desire to address issues from a regional perspective and the merger supported this effort. Additionally, Bridgeport was an important community for FCCF to establish a firmer connection with given its high level of need and donor interest in the area. For GBAF the merger offered an opportunity to address a leadership void, continue support of grantees in the area, and attract new donors to support needs in the city.
What decisions were made about identity?	Leadership decided to maintain the FCCF name because FCCF was already a significant grantmaker in the Bridgeport area and a well-established organization.
What strategic decisions were made?	A stipulation of the merger for FCCF was GBAF acceptance of the 2007 FCCF strategic plan. To this end, FCCF leadership made several presentations to the GBAF board to get buy-in. The merger reinforced FCCF's strategic direction, but did not change it.
What leadership changes were made?	The CEO of GBAF had earlier resigned, creating an opportunity for discussions to move forward. Additionally, a seat on the merged entity's board was offered to every GBAF board member. GBAF chair was named vice chair of FCCF.

"The merger process took a long time and required a tremendous amount of staff and board energy and commitment to build relationships. We thought that the process would be complete in one-and-a-half years, but it has been three years and we are still working on merger issues. It has been a surprise how much time and energy it has taken to make the merger solid."

Susan Ross, CEO, Fairfield County Community Foundation

Key Success Factors

- ☑ **Established commitment for FCCF to spend a certain level of grants in Bridgeport after the merger**
- ☑ **Built trust over the course of the one-year discussion, particularly with the people who made up the 10-person merger committee**
- ☑ **Leveraged experience of the FCCF board chair with business mergers**
- ☑ **Recognized clear benefits as a result of the merger for both GBAF and FCCF**
- ☑ **Communicated with key stakeholders, including Bridgeport community, donors, and non-profits**
- ☑ **Used third party resources, including merger integration managers and the merger workbook developed by La Piana[2] allowing an outside perspective to guide the process that did not reflect one party's motivations**
- ☑ **Raised $200k in funding for merger process**

	Year Founded	Total Assets	Population Served	#FTEs
FCCF	1992	$97M	901,000	12
GBAF	1967	$52M	348,000	8

[2] For more information about this resource, visit http://www.lapiana.org/Research-Publications/Publications/Books/

Board & Staff Discussion Facilitation Tool
and Self-Assessment

Use the tool below, either formally (collect, tally, and present responses) or informally (as a conversation starter), to conduct an important discussion with your board and/or staff about potential opportunities to adapt your community foundation's business model through an alliance, affiliation, or merger. This resource will help you determine your motivations for considering a new structure and clarify what you are willing or unwilling to give up. The answers should help you in structuring an option to meet your organizational needs.

1. How open are you to considering a structural change?

1 — 2 — 3 — 4 — 5

It is not the direction we should go in — It would be a great opportunity

2. What is your primary motivation for pursuing a structural change (check all that apply)?

- ☐ Reduce administrative costs and workload
- ☐ Address a leadership void or anticipated change
- ☐ Shift priorities and overall strategy
- ☐ Expand outreach and influence
- ☐ Leverage resources and expertise from another CF
- ☐ Spend more time on fundraising
- ☐ Diversify investment pool
- ☐ Change or refine identity
- ☐ Improve outreach to donors
- ☐ Address programmatic areas regionally
- ☐ Amplify community leadership and program strategy
- ☐ Spend more time on grantmaking

3. Where are you *willing* to give up control?

- ☐ Administrative/Back Office work
- ☐ Investment Management
- ☐ Grantmaking Decisions
- ☐ Donor Engagement
- ☐ Fundraising
- ☐ Governance Procedures

4. Where are you *unwilling* to give up control?

- ☐ Administrative/Back Office work
- ☐ Investment Management
- ☐ Grantmaking Decisions
- ☐ Donor Engagement
- ☐ Fundraising
- ☐ Governance Procedures

5. Is there another community foundation that overlaps with your geographic service area?

☐ Yes ☐ No

The following resources provided invaluable background material for our analysis:

Being alive to the potential benefits of collaborations and mergers
Community Foundation Network, 2010

Better Together: Regional Alliances and Small Community Foundation Sustainability
Conducted by the Council of Michigan Foundations, Blueprint Research & Design, Public Policy Associates, and Williams Group. Principal investigator: Lucy Bernholz, Ph.D. Funded by The Aspen Institute Nonprofit Sector Research Fund and the Charles Stewart Mott Foundation, 2005

The Big Are Big and the Small Are Many: A View from the Community Foundation Field
Leslie Lilly, 2004

Community Foundation Strategic Alliances: Partnering for Impact and Sustainability
Community Foundations of Canada, 2010

Covering Rural Territory: A Framework of Rural Service Structures for Community Foundations
Aspen Institute, 2004

Growing Local Philanthropy: The Role and Reach of Community Foundations
Aspen Institute, 2005

CFLT Idea Lab Project Feasibility and Options for Consolidation of Back Office Operations
Thomas Hay, 2009

The idea behind CF Insights is simple:

What if *each* community foundation could know what *all* community foundations collectively know?

CF Insights is a unique resource helping community foundations use information to improve decision making, performance, and sustainability. If you find this report valuable, we hope you'll join CF Insights' membership, and become part of a community that is improving access to performance data and sharing knowledge across the field. Visit www.cfinsights.org to learn more, update the database with your most recent performance data, and download tools for sustainability planning.

Created by community foundations.

We share one goal: improving our performance and sustainability—individually and collectively.

For community foundations, growing impact in the communities we serve begins with strong decision making. CF Insights was initiated in response to a shared hunger among U.S. community foundations for more accurate, timely, and complete information to inform our actions and drive improved performance.

Propelled by FSG.

As nonprofit consultants dedicated to social impact, FSG combines deep knowledge of the community foundation field with world-class research, strategy, and evaluation capabilities.

In partnership with the Council on Foundations' Community Foundations Leadership Team, FSG has been a driving force for CF Insights since its inception.

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Eager to learn more about business model innovation?

“Fueling Impact: A Fresh Look at Business Model Innovation and New Revenue Sources”, is a resource provided by the Council on Foundations’ Community Foundations Leadership Team and CF Insights.

The need for this resource was identified by the Brutal Truths Task Force, a group of nine community foundation leaders.

In this white paper you’ll discover how community foundations are diversifying their revenue base and strengthening their foundation’s differentiation and sustainability.

Visit cfinsights.org to access this report and a webinar featuring stories from the field.

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Seeking Shared Success: Business Model Innovation through Mergers, Affiliations, and Alliances

STORIES AND INSIGHTS FROM ACROSS THE COMMUNITY FOUNDATION FIELD

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Community Foundations Leadership Team

FEBRUARY 2011