Executive summary

Most U.S. community foundations are like entrepreneurs in any dynamic industry. They face challenges in balancing their ambitious goals for community impact, growth and sustainability. The path to sustainability is not built on growth alone, but on defining desirable patterns of growth and asking thoughtful questions about the implications of choices being made.

More than 50 percent of community foundations in the U.S. are less than 10 years old; two-thirds have less than $25 million in assets. Conventional wisdom suggests that these foundations adopt the "traditional model" of their larger and older peers, and that the deficits of their early years will disappear as they grow their asset size. New research suggests that this is a false assumption. Unless emerging community foundations make well-informed and intentional choices about their approach to growth, deficits may actually worsen as they increase assets.

Fortunately, these emerging community foundations are not limited to the traditional model. They have the ability to adapt more quickly, move more nimbly and innovate more freely than their more established peers. The choices they make today have the potential to dramatically change how their foundations grow and evolve in the future. Many are already discovering innovative models for growth that align community impact with financial sustainability.

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For many emerging community foundations, the drive to grow is defined purely and succinctly in terms of asset size. By this measure, even the smallest community foundations have proven adept at growth: Between 1995 and 2005, foundations with assets less than $5 million experienced a remarkable average annual asset growth of 20 percent. Yet all assets are not equal when it comes to sustainability—not every fund is a good fund. And some questions are more strategic than others when it comes to planning for growth. The path to sustainability is not built on growth alone, but on defining desirable patterns of growth and asking ever-more thoughtful questions about the implications of the choices being made.

As community foundations begin to develop a more nuanced understanding of growth and its effects, the planning question that their boards and staff confront changes from "How fast can we grow?" to "How can we grow in a sustainable way that serves our mission?" The answer requires a carefully coordinated set of activities that enables the foundation to serve its community, engage donors and become sustainable while it grows.

Three approaches to growth

When it comes to growth, there is no single "right" solution that applies to all community foundations. The experiences of today's community foundations, as well as related research, point to three prevailing approaches that lead to sustainable patterns of growth. These approaches can be characterized as *controlled, engaged* and *leveraged*.

The controlled approach is characterized by a "we don't spend money we don't have" mindset. It emphasizes the need for organizational stability and independence, and for closely managing expansion and corresponding operating costs.

The engaged approach is described by a "let's get everyone involved" mindset. It emphasizes the importance of building relationships, and of being relevant to a broad set of community stakeholders. It often involves foundations taking an activist approach and addressing local needs in ways that rely on community involvement and collaboration.

The leveraged approach takes a "we need to expand our reach" mindset. It emphasizes broadening a community foundation's reach through partnerships. One type of leverage taps the power of regional affiliates to cover broad geographic territories, access local knowledge and cultivate new donor relationships. A second, less intensive form employs matching-fund strategies as well as partnerships with other regional funders.

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Achieving sustainability with any of these three approaches depends on a thorough understanding of a community foundation's underlying economics. The operating model of a community foundation depends on the interplay of four key economic drivers, each of which can be altered by the decisions of board and staff. These four drivers are:

- Setting clear product and fund *priorities* for development
- Aligning *pricing* with cost drivers and donor incentives
- Achieving consistent *revenue* by diversifying sources
- Managing the *cost* base

Most emerging foundations can achieve sustainability more intentionally once these four drivers are understood and aligned with a *controlled, engaged* or *leveraged* approach to growth, in pursuit of their mission and goals. Each approach requires fiscal discipline, but such discipline need not limit community impact. In fact, it can expand it. Over the long term, a community foundation will achieve greater impact when its choices are economically sound, and its strategies are carefully aligned with a realistic plan for sustainability.