SUSTAINING MATURING FOUNDATIONS

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Board members and staff of philanthropic institutions regularly reach out to CMF for support in navigating challenges related to foundation operations, grantmaking and leadership. Across these topics and others, there is a distinct commonality in the challenges experienced by foundations that have moved beyond the beginning phases of a new organization and have reached a more advanced age or level of complexity. These organizations may be considered "maturing foundations." In the case of the Council of Michigan Foundations' membership, approximately 80% of foundations are 25 years or older and more than 90% of foundations are over 15 years old. Given these statistics, the vast majority of Michigan foundations are likely to be considered a "maturing foundation" and experience the phenomenon described in this resource.

Recognizing that much of the educational material available nationally to assist foundations is designed for foundation orientations – to assist those just getting started – this resource alternatively focuses on the needs of executives, staff and board members of maturing foundations. Contents include (1) context on foundation lifecycles, (2) an overview of issues commonly faced by maturing foundations and (3) approaches for addressing those issues.

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Foundation Lifecycle

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Foundations generally follow a lifecycle, starting when they are formally created by their founders. The following stages may occur during a foundation's lifecycle:

- **Establishing**: An initial phase focused on creating key documents, policies and procedures necessary to launch the foundation and its grantmaking operations.
- **Maturing**: The primary phase of foundation work, focused on growth and maintenance of the foundation's grantmaking and operations. This period includes growth of staff, incorporation of new generations of board members and staff, and increasing complexity of policies and procedures.
- **Declining**: A temporary or permanent phase that results from conscious or unconscious decisions by board and staff to slow or reduce the foundation's grantmaking and operations.
- **Termination**: The final phase of the foundation due to conscious decisions to payout or transfer the foundation's assets, or unconscious decisions that lead to a forced ending of the foundation's operations.
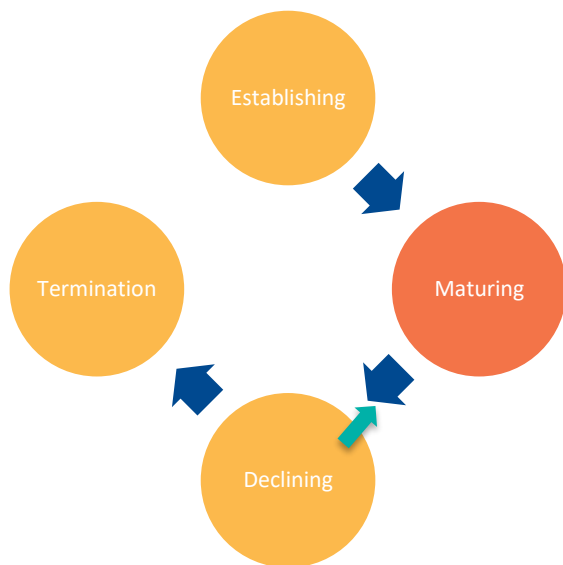
Foundations may cycle through variations of the maturing and declining stages and still have the potential to remain a relatively healthy organization. Moving a foundation back to the maturing stage requires effort by the board and staff to reverse the cause of the decline or stagnation and resume a stage of healthy growth and maintenance of operations and grantmaking. Without the board and staff working to actively "grow" the foundation and ensure healthy operations, it will inevitably decline.

Why This Matters

Since there are few required structures in the design of a foundation, when donors and founding generations of staff and board members first create the organization, they are presented with many choices and have nearly limitless opportunities to be innovative. Whether designing the grantmaking strategy or writing policies, they can be highly creative and customize the organization's design to their own distinct vision.

Maturing foundations have an altogether different responsibility – namely, to continue the original purpose and ensure that the foundation remains sustainable for future generations. These institutions' personnel are tasked with carrying the organization forward while remaining grounded in the founding intent.

The future health of a foundation depends on staff and board members' ongoing maintenance and support of the organization's growth, which can take many forms. In the same way a gardener works to oversee the healthy growth of seeds, even if the plant is not necessarily increasing in size, it continues to need care and feeding. In the case of a foundation, the staff and board maintain its operations and grantmaking in the face of:
1) Generational changes among the board, executives and staff.
2) Emerging challenges, especially those caused by external changes in regulations, the economic environment or the issue areas of focus for the foundation.
3) The ever-present march of time that may include shifts in technology, industry best practices and other standards impacting the organization.

Before starting a new foundation (or in its earliest stages), it is essential that leaders consider long-term needs required for sustainability, especially for organizations intended to last in perpetuity. The consequences of missing these steps can be significant, especially for the community the foundation aims to support. Additionally, the expense in time and resources to bring in external counsel and advisors to resolve a large-scale problem is far more costly in comparison to ensuring that qualified counsel is included from the beginning. Taking the time to consider these issues early on makes the staff and board members' work more efficient and effective, and such planning helps to enable a growth mindset for the long-term good of the institution and its partners.

Why Foundations Decline

Foundations can decline for numerous reasons. In some cases, there is an intentional decision to close operations, i.e., to shift toward a limited-lifetime strategy (also known as a "spend-down"). However, foundations can also decline when board and staff members make conscious and unconscious decisions that threaten long-term operations. For example, board members may avoid reading financial documents, participating in investment or audit committees, or attending board meetings. Similarly, if staff interest and attention are focused only on mission-oriented activities (i.e., grantmaking), operational concerns may be unintentionally ignored. This can range from out-of-date operating policies

that reference old technologies to decades-old articles of incorporation that have not been updated since the organization's formation. These issues can directly threaten a foundation's ability to properly adapt to significant changes in the philanthropic landscape as well as internal or external challenges (i.e., a disaster situation). Foundation personnel must actively manage policies and procedures to streamline and stay current on their operations. For more information, see CMF's resource, "An Operations Checklist for Foundation Compliance."

Maturing Foundations

Common Characteristics of Maturing Foundations
Grantmakers and foundations are unique institutions, with their own histories, missions and strategies. However, the organizations considered "maturing foundations" generally share these characteristics:

1. The foundation is beyond the "initial" creation stage of their lifecycle; the organization is generally well established in its grantmaking and operations.
2. The foundation has an established set of incorporating documents, policies and procedures for day-to-day operations. The organization may actively modify existing structures and reimagine its work as part of larger strategic planning and transformation efforts, but is well past creating these documents for the first time.
3. The foundation staff and board no longer include the founding generations, or the organization may be in the midst of that transition and is now welcoming new people for the first time. In some organizations, staff may not be personally familiar with the founding family or donors, or even the key institution(s) that established the foundation.
4. The foundation has an increasingly complex grantmaking portfolio and operations; lawyers, external advisors and/or highly trained staff and board members are required to navigate emerging challenges.

It is important to note that the age of the organization is not a defining factor in identifying a foundation as maturing. Some foundations can move into a maturing phase faster than others, and even a relatively young organization can find itself in a stage of decline without effective long-term planning toward sustainability.

Maturing Foundation Characteristics by Foundation Type
There can be some variance to the way foundations experience the effects of a maturing organization, particularly between private foundations (including family foundations) and community foundations/public charity grantmakers, based on their unique structures.

	Private/Family Foundation	Community Foundation/Public Charity Grantmaker
Operations	• Increasing complexity of policies. • Standardizing to modern operating practices. • Increasing reliance on endowment over initial contributions.	• Increasing complexity of policies. • Standardizing to modern operating practices, such as implementing policies in line with the National Standards for U.S. Community Foundations program. • Increasing reliance on endowment and/or fund fees.
Grantmaking	• Increasing complexity and evolution of grantmaking beyond the original donor-driven intent. • Well-established grantmaking operation that is more reliant on policies and established priorities. • Residual programs or grantmaking focus leftover from previous staff or board.	• Increasing complexity and evolution of grantmaking programs. • Substantial increases in funds being managed. • Well-established grantmaking operation that is more reliant on policies and established priorities. • Residual programs or grantmaking focus leftover from previous staff or board.
Staffing	• Staff members need more training or experience to fill the needs of their respective roles. • More staff may be present in the organization, resulting in more management roles or specialization in responsibilities.	• Staff members need more training or experience to fill the needs of their respective roles. • More staff may be present in the organization, resulting in more management roles or specialization in responsibilities.
Board	• Board members need more experience to understand the needs of their role. • The board includes more specialized professionals, based on the increasing complexity of the organization. • The role of volunteers on the board has changed, as some responsibilities may have shifted to staff or external counsel.	• Board members need more experience to understand the needs of their role. • The board includes more specialized professionals, based on the increasing complexity of the organization. • The role of volunteers on the board has changed, as some responsibilities may have shifted to staff or external counsel. • The involvement of more committees to manage the needs of the organization, such as those involved in evaluating scholarship applications.

External Counsel (Tax, Legal, Consultants)	• While earlier counsel and consultants were responsible for creating new material (documents, programs, approaches), the later counsel are responsible for ensuring compliance with increasingly complex rules and structures.	• While earlier counsel and consultants were responsible for creating new material (documents, programs, approaches), the later counsel are responsible for ensuring compliance with increasingly complex rules and structures.
Other Transitions	• Generational transitions may impact the mission, strategy, and leadership of the organization. • The foundation may choose to focus on a limited-lifetime vs. perpetual lifespan. • The structural options for the foundation may change or diversify.	• Donor relations evolve over time, with aging donors and funds. Legacy funds may become a challenge to navigate, especially if the foundation makes strategic choices that diverge from its original mission/structures.

Specific Examples of Maturing Foundations' Challenges

In some cases, "diagnosing" a maturing foundation's challenges is relatively simple. Staff or board members may reach out to Ask CMF with questions related to updating specific policies or practices that have become outmoded. In other cases, an organization's challenges are more complex and harder to identify; the weight of the institution's history or the size of its operations and grantmaking may lead to unique complications. In some cases, these are questions that can be easily answered, but may involve significant levels of internal effort to manage or may require the engagement of highly-specialized external counsel to assist with the long-term process of resolving the issue.

The following examples represent just a few of the ways maturing foundations may experience these challenges in practical terms.

Onboarding New Staff and Board Members
As foundations mature, it is natural to have leadership transitions within the boards of directors and staff. HR teams have long focused on the importance of hiring qualified staff, ensuring smooth transitions and developing succession plans. The same is true for executive directors/CEOs welcoming new trustees and aiming to create a seamless change in leadership. However, the challenges of a maturing foundation can easily undermine these efforts. In reviewing policies or files of their new organization, these staff and board members may discover areas of missing and outdated information, as well as poorly documented procedures.

It is also important to remember that a new board cohort of professionals (oftentimes those with skills specifically sought after by the organization) is walking into a fundamentally different organization than the founding board. A new executive director/CEO may need a different skillset than the organization's first (original) leader. These individuals may need more specialized training, more experience, different networks and access to state/national peer networks to succeed in their roles.

In order to assist foundations navigating these transitions, the CMF resources series, "What Boards and Executives Need to Know," addresses common questions for staff and board orientations, in addition to other Ask CMF resources available through the CMF [Knowledge Center](.).

Reviewing Articles of Incorporation, Gift & Grant Policies, and Other Key Documents

When a donor or family creates a foundation, they may assume that their newly-established organization will exist in perpetuity with few or no changes. However, this is rarely the case. Even while maintaining the same underlying purpose, the institution will undergo a certain amount of natural change. Founding documents and policies can become out-of-date due to changes in the legal code, industry best practices and even natural evolution in the organization itself related to staffing, grantmaking and general operations.

For example, a foundation's articles of incorporation (or trust agreement) should be reviewed by legal counsel periodically to ensure that it is up-to-date. An organization's incorporation documents do not function like a birth certificate that only needs to be created at the organization's founding. Rather, because of periodic updates to the Michigan Nonprofit Corporation Act and other related regulations, it is important that foundations review these documents and file updated versions with the state. This may also be done if the organization makes substantial changes to its structure or strategy.

Another core document that needs periodic review is the foundation's gift acceptance policy. The original policy may have only included certain categories of assets (i.e., cash) as being permissible gifts to a community foundation. However, innovations in the field and expanded options for the types of gifts that can be easily managed by the foundation may have changed. In the case of a private foundation, grantmaking policies (and even its founding documents) may significantly restrict the types of grants permitted, even if other categories of grants (i.e., by type of recipient or type of grant – operational, programmatic, capital, etc.) may also serve the organization's underlying mission.

A periodic review of these core documents – with updating to reflect current practices while also being broad enough to allow permissible categories of innovation and new activity – ensures that the foundation can reach its full potential with its existing human and financial resources. The Ask CMF resource, "[An Operations Checklist for Foundation Compliance](.)," is a valuable tool to assist foundations in evaluating which of their activities are legal requirements that must be maintained, or best practice.

Unwinding Old Programs

For well-established foundations, it is important to conduct periodic reviews of all programs and initiatives, especially those which have not been recently reviewed for strategic (mission) alignment, value, staff capacity and other key factors. While it may make perfect sense to maintain some "legacy" funds or programs, and recognizing that even the most ideal strategic plan cannot completely overcome donor intent found in fund agreements (which are legally binding), some programs may simply no longer work. In these instances, the board and staff must be tasked with making an informed decision on whether to move away from those efforts.

These situations must be carefully managed, as there are oftentimes key donors, stakeholders or community relationships connected to those initiatives. Foundations face significant reputational risk if these situations are managed poorly, even if the decision to unwind a program is the right one for the institution.

Managing – and Digitizing – Overwhelming Data

Maturing foundations can struggle with the ever-growing amount of information they store and manage. Through Ask CMF, foundations regularly reach out about issues of record retention, such as exploring ways to decrease the amount of paperwork they keep on file or ensuring they are maintaining required documents in the long term.

One of the most common examples of challenging files to maintain is community foundation fund agreements, which are typically filed with information about the original donation and purpose. Staff may discover documentation needed for reference is missing, or the original recipient organizations of the fund contributions no longer exist. To assist foundations with the task of managing these files specifically, the Ask CMF resource "Frequently Asked Questions About Fund Agreements" includes information on both creating fund agreements and making necessary updates to these documents.

For a foundation with a long-established reliance on databases to manage its operations, grantmaking and donor information, it is important to consider how data is stored and backed up, especially when transitioning between systems. Historical data – and institutional memory about the foundation and its activities – may be slowly lost over time without additional effort and attention on maintaining key information for future generations.

When it comes to digitizing records to partially or fully replace paper files, the Ask CMF resource "An Operations Checklist for Foundation Compliance" section on Technology may be helpful.

Questions for Discussion

Foundation personnel may be interested in exploring how the topics included in this document are reflected within their own institution. The following discussion questions may be useful in the context of a team conversation:

- Where do we see a "maturing" effect the most in our organization?
- What are our organization's most pressing areas of concern?
- What are our organization's strengths?
- What areas are requiring more and more work or focus than they did before?
- What external factors are influencing our organization, our community and our sector?
- What current or upcoming transitions should we be preparing for now?
- Have we established processes for reviewing (and updating as needed) our policies and procedures?

Actions and Next Steps

In response to complex challenges that emerge for maturing foundations, staff and board members can advance a number of strategies to ensure the future health of their institutions. The following suggestions originated from institutions engaged in this material during in-person workshops:

- Regularly review policies and documents as part of the planned work of the foundation staff or board. Consider integrating these efforts into the job description and work plan for specific staff and/or setting aside staff time for this activity to occur on a regular basis.
- Focus on streamlining operations. The Ask CMF resource, "An Operations Checklist for Foundation Compliance," is an excellent starting point for organizations considering what policies and activities are legally required and those that are best practice, or activities that can be evaluated further with a strategic lens.
- In the case of community foundations, invest the time to inventory donor records and fund files. By understanding what is present or missing from these files, the organization can make more informed decisions regarding its strategic approach to donor relations, legacy funds and programs that may be impacting staffing and resources.
- Ensure that board and staff role descriptions are updated, and that roles fit with the organization's current and anticipated future needs. Natural transitions in staff and board positions offer an opportunity to reevaluate the respective responsibilities and the necessary skills of incoming personnel. Personnel and compensation consultant firms can be helpful in such reflections.
- Benchmark and evaluate the organization's operations, considering opportunities for strategic improvements. Philanthropy serving organizations (PSOs) like the Council of Michigan Foundations have state/region and national reports and other resources to support this review, and evaluation firms (consultants) can provide advanced support and coaching in this process.

- Plan for upcoming transitions of all types. Though executive transitions may already receive significant attention, any internal or external transition offers an opportunity to think strategically and ensure the institution is using its resources effectively.
- Consider the changing financial circumstances of the organization. Over time, the internal finances of the institution may change, particularly due to a stronger reliance on endowment income. Additionally, the external environment impacting the foundation's finances may change. Maturing foundations should have strategic discussions about how to navigate these financial realities and their impact on the future survival of the organization.
- Talk with qualified external counsel and experts to better understand the nature of the organization's challenges; have an informed discussion regarding options to navigate those challenges.

To Learn More

Council of Michigan Foundations. "An Operations Checklist for Foundation Compliance: Legal Requirements and Operational Best Practices for Private Foundations and Public Charities." 2022. https://www.michiganfoundations.org/resources/operations-checklist-foundation-compliance.

Council of Michigan Foundations. "Frequently Asked Questions About Fund Agreements: A Resource for Community Foundations and Public Charities Holding Component Funds." 2022. https://www.michiganfoundations.org/resources/faqs-about-fund-agreements.

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