

## Fostering Effective Institution-Foundation Relationships

Massachusetts Statewide Trustee Conference  
September 23, 2014

### AGENDA

- I. Why have foundations?
- II. Institution-foundation relationships—the national perspective
- III. Changes in institution-foundation relationships
- IV. Fundamental fiduciary concerns
- V. Key policies and practices
- VI. Memoranda of understanding (MOUs)
- VII. Hallmarks of effective foundation boards
- VIII. Discussion and questions

## Why Have a Foundation?

1. Separation of privately contributed resources from state funds
2. Facilitation of institutional objectives that would be impossible, impractical, or simply inefficient for state agents such as real estate acquisition and development, debt financed projects, entrepreneurial ventures
3. Provision of dedicated stewardship and management of privately contributed resources
4. Safeguarding of donor privacy

*While foundations exist in part because of their ability to operate in ways impossible for state entities, they should not be used as a means of skirting public accountability.*

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## The Value of Volunteers

“Foundations turn outsiders into insiders”

- Philanthropic leadership
- Relationships with community/business leaders
- Compelling advocates
- Provisions of technical and professional expertise
- Long-term perspective and visionary thinking
- Continuity of leadership

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## Foundations' Role in Fundraising (4-Year)

1. 34% are wholly responsible for fundraising for their institutions
2. 10% direct fundraising with support from institution staff
3. 44% support fundraising that is directed by institution staff
4. 8% play little or no role
5. 4% other

2010 AGB Data

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## Foundation Boards' Participation in Fundraising

- 88% of foundation boards participate in cultivation/solicitation of gifts\*
- 81% of foundation boards are involved in campaign leadership\*
- 34% of campaign committees recruited from foundation boards vs. 7% from institution boards
- Foundation board members twice as likely to make campaign contributions as institution governing board members
- Foundation board members contributed 21% of funds raised during the quiet phase of campaigns vs. 4% contributed by institution governing board members
- Foundation Boards contribute an average of 14% of total support raised by public institutions

AGB: Schrum 2000, \*AGB 2011

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## Endowment and Degree of Independence

Endowment	Dependent	Interdependent	Independent
<\$10	45%	49%	6%
\$10-50	26%	56%	18%
\$51-100	13%	70%	17%
\$101-500	16%	33%	51%
>\$500	7%	29%	64%

Dep: Foundation effectively functions as unit of inst. which provides staff and other support

Inter: Foundation receives some free in-kind benefits inc. use of inst. staff

Indep: Foundation operates autonomously and reimburses inst. for any resources used

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## Degree of Independence and Role in Fundraising

	Dependent	Interdependent	Independent
Wholly responsible	28%	36%	45%
Fndn Directs	16%	20%	8%
Inst. Directs	48%	39%	20%
No Role	9%	2%	14%
Other	--	3%	12%

AGB 2011

\*There may be small rounding errors

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## Foundation Chief Executive

52% of foundation CEOs also serve as officers of the university (all institution types)

### Compensation & Reporting

Paid by foundation/reports to board	27%
Paid by foundation/dual report	9%
Paid by both/dual report	13%
Paid by institution/reports to president	17%
Paid by institution/dual report	34%

## Foundations' Roles Are Changing

2014 AGB survey on the evolving role of foundations:

1. 86% of 220 respondents reported either changes in the role of the foundation board or changes in the functions performed by the of the foundation in the past 5 years
2. Foundation boards have assumed greater importance as ambassadors and advocates and have become more active in fundraising leadership
3. Over a quarter of foundations have assumed responsibility for some development functions previously performed by the institution
4. The structure of public higher education development programs seems to be in play

## Specific Findings

### In the past 5 years:

1. 57% of foundation boards have assumed greater importance as advocates and ambassadors
2. 54% of foundation boards have become more active in fundraising leadership
3. 54% of foundations have assumed increased responsibility for real property
4. 32% of foundation boards are more actively engaged as advisors to institution administrators
5. 27% responsibility for some development functions transferred from institution to foundation
6. 14% responsibility for some development functions transferred from foundation to institution

## Institution-Foundation Relationships Becoming Closer

1. 81% report that the work of foundations and institutions is becoming more closely integrated and aligned
2. 88% of institution presidents and 79% of foundation chief executives agree that institution administrators increasingly recognize the value of foundations
3. A large majority believe that “a degree of independence” remains essential for foundations to fulfill fiduciary responsibilities and missions

## Tensions May Be Increasing

While many institution leaders seem to be turning to foundations to play a more active role in development, the increasing importance of private support may also lead some presidents to seek a greater degree of control over foundations.

1. 22% believe that conflicts or tensions between institutions and foundations are becoming more common
2. 30% believe that institution administrators and boards feel the need to exercise increased oversight over affiliated foundations

## Issues for Special Consideration

1. Disposition and use of unrestricted gifts and bequests
2. Requests for funding by university administrators
3. Reimbursement of expenses incurred by institution staff
4. Salary supplements for institution administrators
5. Reporting relationship, assessment, and compensation of the foundation chief executive and other staff
6. Relationship between the foundation and other affiliated entities

## Basic Principles

1. Absolute clarity regarding the respective roles, responsibilities, and obligations of the foundation and institution boards
2. The foundation board is responsible for prudent management and stewardship of privately contributed resources, should provide philanthropic support, and may play an important advisory role
3. The institution board and administration determine institutional priorities and are responsible for hiring and assessment of institution staff

## Basic Principles (continued)

4. All foundation funds ultimately derive from private gifts or public sources
5. Foundations are “private” corporations but they may be held to the same standards as the public entity they support
6. Affiliated entities should comply with the highest standards of transparency commensurate with the safeguarding of donor privacy or sensitive confidential business information
7. Rule of no surprises: Regular communication and information sharing between the board and staff leadership of all entities is essential
8. Always apply the smell test/newspaper test

## Practices Supporting Effective Partnerships

1. Thoughtful MOU process maps and memorializes relationship
2. Orientation for new institution and foundation board members
3. Joint meetings and regular reporting
4. Overlapping board/committee memberships
5. Alignment of institution and foundation planning
6. Collaboratively developed business plan, practices, and policies
7. Flexibility

## Key Policies and Practices

Let good policies and practices do as much of the work as possible but ask the hard questions.

1. Gift acceptance policies
2. Mirrored accounts other systems to document and monitor compliance with donor intent
3. Investment and spending policies
4. Policies regarding requests for funding
5. Policies regulating staff expenditures and reimbursement
6. Written (and signed) statements of expectations, conduct, and COI
7. Independent audits/internal audits, and policy reviews

## Practices Supporting a Strong Partnership

- 95% Institution president or chancellor attends foundation board meetings
- 83% Formal operating agreement
- 66% Foundation CEO attends institution board meetings
- 61% Foundation CEO serves as member of president's cabinet
- 18% Hold joint meetings

AGB 2011

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## Institution Leaders on Foundation Board

Position	Ex-officio	Voting	Non-voting
Inst. president	88%	45%	55%
Inst. board rep.	54%	69%	31%
Alumni assoc. rep.	48%	57%	44%
Institution CFO	37%	34%	66%
Faculty rep.	30%	62%	39%
Chief academic officer	24%	36%	64%
Advancement officer	24%	29%	71%

AGB 2011

*\*There may be small rounding errors*

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## AGB Illustrative MOU

The memorandum of understanding (MOU) maps key elements of the institution-foundation relationship and documents shared understandings about the role of the foundation and respective responsibilities of the institution and foundation. The AGB-CASE Illustrative MOU, first published in 2005, served as a model for many foundation operating agreements. AGB revised and updated the Illustrative MOU in 2014 to reflect evolving practice and provide additional guidance on the development and implementation of MOUs.

## Uses of the MOU

1. Documents shared understandings about the role of the foundation, key elements of the relationship, and respective responsibilities and obligations
2. Explains the role of the foundation and its relationship with the institution for both internal and external stakeholders
3. Orientation tool for new administrators and board members (both foundation and institution)
4. Compliments the mission statement as a guide for board decision-making
5. Fosters continuity during leadership transitions

## The Process is Important

1. Process should be led by institution and foundation leaders—not delegated to lawyers
2. Ideally, the process follows organically from strategic and campaign planning
3. Good times likely make for good MOUs—don't be afraid to step back and evaluate operating practices when the relationship is strong
4. MOUs developed or revised in response to crisis or conflict may be reactionary rather than strategic
5. MOUs should be readable and reasonable in length
6. Review and revise on a regular schedule

## Elements for Inclusion

1. Foundation-Institution Relationship
2. Responsibilities of the Institution or System
3. Responsibilities of the Foundation
4. Finance and Administration
5. Terms of the MOU: periodic review, dissolution clause, conflict resolution

The MOU should document the relationship at a high level; specific administrative practices may be addressed by reference to other policies or agreements that can be adapted as needed.

## Effective Foundation Boards

1. Ensure that the work of the foundation is aligned with the strategic priorities of the host institution.
2. Work with the chief executive on the foundation's long-term strategic plan, and participate in, approve, and monitor progress of the foundation's plans.
3. Engage directly in fundraising, and provide diligent stewardship of philanthropic contributions.
4. Maintain the foundation's fiscal integrity, preserve and protect its assets, and provide financial oversight.

## Effective Foundation Boards

Continued...

5. Advocate for the institution in keeping with its public purpose and the state's public agenda.
6. Support the foundation chief executive and provide oversight as appropriate, given the position's reporting relationship with the institution's president or chancellor.
7. Conduct the board's business in an exemplary fashion and periodically assess the performance of the board, its committees, and its members.

## Characteristics of High Performing Foundation Boards

1. Maintain ongoing communication with institution leadership and foster trusted relationships
2. Operate at a strategic level and focus on the future
3. Culture of trust and inclusiveness
4. Integrated planning: Interlocking strategic plans/engaged in campaign and financial planning/annual work plans
5. Regularly engage in thoughtful self-assessment
6. Regularly assess policies, procedures, and operations
7. Board composition and structure aligned with mission and strategic priorities

## Resources

- AGB Foundation Leadership Forum, January 25-27, 2015, Naples FL
- AGB Statement on Board Conflict of Interest with Guidance on Compelling Benefit, AGB 2013
- AGB-CASE Illustrative Memorandum of Understanding AGB 2014
- [The Audit Committee](#) AGB 2011
- [The Investment Committee](#) AGB 2011
- [The Governance Committee for Foundation Boards](#) AGB 2014
- *Understanding Foundation Finances—Financial Oversight and Planning for Foundation Boards*, AGB forthcoming October, 2014
- AGB Consulting

# Thank You

David Bass

Director of Foundation Programs, AGB

[Dbass@agb.org](mailto:Dbass@agb.org)

202 776-0850

[www.agb.org](http://www.agb.org)

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