

## CONVERSION FOUNDATIONS: ENSURING COMMUNITY PARTICIPATION

### Why is community participation important?

Conversion foundations have uniquely public character and a resulting responsibility to ensure participation by the community they serve. Generally foundations are created by donors - individuals, families or corporations - who decide to give resources of their own to be used for charitable purposes. In contrast, conversion foundation assets are owned by no one but are dedicated to benefit the public. They are already a public trust. The value of a nonprofit organization results from a pattern of broad community support, including the benefits of tax-exemption. Support may also include donations from individuals, government grants, and contributions of time and expertise, often over many years, and from many sources.

Nonprofit board members do not own the assets of a nonprofit corporation. Rather these individuals serve as stewards of the public trust, responsible for protecting assets that are permanently dedicated to public benefit purposes. Because it is the beneficiary and has participated in creating the value of a nonprofit institution, the public has a significant interest in how nonprofit assets are used following a health care conversion. This public stake creates an obligation on the foundation for community participation in all aspects of its planning, development and operation.

The process for making critical decisions about the mission, purposes and structure of a conversion foundation should be open and inclusive. Governing boards should include a broad representation of interests and diverse experience and they should be reflective of the community served. Community participation should be a key commitment of the foundation and incorporated in its structure and operations on an ongoing basis.

#### **Foundation for Seacoast Health, Portsmouth, NH**

Following the sale of Portsmouth Regional Hospital in New Hampshire, the resulting foundation's grantmaking focus and priorities were determined through an intensive process of community consultation including more than 40 public forums held at locations throughout its 9 town region. Subsequently the Foundation has continued to make extensive use of advisory committees in developing its program initiatives. Broadly-based community committees have been convened to work on the needs of elders, women's health issues, health promotion, and to oversee development of a central facility for youth and family services. Foundation staff write a "charge" or assignment for each committee and the Foundation underwrites the cost of consultants or other support selected by committee members. The Foundation has elected to use and build community capacity rather than hiring a large professional staff.

## **Community engagement is key to philanthropic effectiveness.**

Many foundations emphasize strategies to involve the public in order to address their charitable missions more effectively. Community foundations and other public foundations with a broad donor base often rely on active community consultation to establish grantmaking priorities, shape program initiatives and evaluate the impact of their work. Many use standing and ad hoc advisory committees to broaden participation in program design, grantmaking and other roles. Private and family foundations may also use these and other approaches to gain the advantages of a wide spectrum of opinion, to secure particular expertise and the viewpoints those intended to benefit from a philanthropic program.

### **Kansas Health Foundation**

A philanthropy operating statewide in Kansas, the Health Foundation uses "listening tours" to put board and key staff members into communities to talk with people and to learn about their health concerns. In 1995, for example, 31 meetings were held in 17 communities over an intensive two week schedule. Foundation staff and board members hold many meetings during the year throughout Kansas. The statewide listening tours have been instrumental to development of the Foundation's major program directions, building a health promotion agenda and working more directly on underlying factors that determine community health.

Consultation with diverse elements of the community is essential for effective grantmaking in any field. This is especially true for health philanthropy because of the complex interaction of factors that influence health and well being. Some established conversion foundations are among the most successful of all philanthropies at using community engagement strategies. They adopt these practices in order to secure the involvement of key constituencies and to collaborate with other institutions in the community. A broad base of participation enables foundations to engage in dialogue with others and to build consensus in order to set and

achieve goals for health improvement.

## **Initial planning for conversion foundations should be public.**

There are important decisions to be made about the structure, organization and mission of conversion foundations. These issues should be considered, together with other important aspects of the conversion proposal, in a process that is open and invites public participation. Some regulators elect to separate approval of the conversion transaction from creation of the foundation in order to provide adequate time for thorough foundation planning. This is known as "bifurcation." More often the plan for subsequent use of charitable funds is considered as an integral part of the conversion transaction. However the regulatory review is structured, advocates should ensure that there is a process that involves the community in shaping important elements of the foundation.

In early conversions, responsibility for developing the foundation plan was often left to trustees of the converting nonprofit organization. This approach did not adequately recognize the community stake in nonprofit assets nor provide for broad or diverse input. Important choices were left entirely to boards with expertise developed for different purposes - management and oversight of a hospital, health insurance or other health care organization. The people most directly impacted by the conversion and targeted to benefit from the foundation's activities, usually underserved and vulnerable groups in the community, were left out of the planning process entirely. More recently, and in particular highly visible cases, regulators have encouraged broader participation in early foundation planning. At a minimum, the converting nonprofit should add new members to the governing board to gain diversity and the representation of important groups in the community. Alternatively, community members may be recruited to join with board representatives to lead the foundation planning process. On an entirely new group may be formed to develop the foundation plan.

### **How can the wider community be represented in planning for the new health foundation?**

A planning committee may be convened to oversee establishment of the foundation. Such a committee should be chaired by a highly respected community leader and should

have members representing a wide cross-section of opinion, background and expertise. The inclusion of people who understand the concerns of vulnerable constituents is critical. Public health, community development and philanthropic expertise should also be sought. A diverse and broadly based planning committee is ideally suited to lead a public process for considering the important early decisions to be made, including

- articulating the public benefit purpose or mission of the foundation
- formulating core values and principles
- determining structure of the new foundation

#### **Caring for Colorado Foundation**

The Colorado Commissioner of Insurance held a series of public hearings in 1997 into the proposed conversion of Blue Cross and Blue Shield of Colorado. In response to calls for public input into formation of an independent board, the Commissioner established a 13 member Community Advisory Committee with representatives from each of Colorado's congressional districts. Criteria for service on the Community Advisory Committee were published and a call for nominations issued through media and direct mail. The 13 members selected from among more than 100 nominees nominated the initial board of the Caring for Colorado Foundation. The Committee will function thereafter as a permanent nominating committee for the Foundation and a liaison with Colorado communities.



- developing criteria for board membership and a board selection process
- drafting articles of agreement and bylaws

The planning process should include public meetings to hear community input on these issues. Meetings should be publicized through active outreach to ensure inclusion of diverse viewpoints. Particular effort should be made to engage members of the community with unmet health needs. Regulatory officials should take an active role in the foundation planning, and should host some or all of the public meetings. Foundation planning committees should present key documents in draft for review and comment prior to finalizing them and prior to submitting reports and recommendations to regulators for approval.

### **Community Advisory Committees can be a permanent structure to ensure community participation.**

Community interests can be given ongoing representation through a Community Advisory Committee. As a permanent structure provided for in the governance documents of the foundation, such a committee can serve as a link between the board and the community. With responsibility for board nominations, a Community Advisory Committee ensures that the governing board is reflective of the community the foundation serves. Additional information is available in a paper on *Community Advisory Committees: An Important Structural Provision for Conversion Foundations*.

### **What research should inform planning for the new foundation?**

Regardless of how it is organized, the group leading the foundation planning process must gather information on which to base decisions that will shape the new philanthropy. The development of specific grantmaking strategies, application review procedures, and program initiatives may await the appointment of foundation staff. However, the early decisions necessary to secure regulatory approval for the foundation should be grounded in an active assessment process of community research and consultation. The community assessment may include various steps and methods (and may also be called a *needs assessment or community discovery process*). It may be undertaken by the volunteer planning committee or board alone, or may be supported by a foundation or planning consultant.

The community assessment gathers information about the environment in which the foundation will be operating, the particular role played by the converting nonprofit, the community impact of the transaction, perceptions about health needs and priorities and other resources that may be mobilized to address health improvement goals. Steps and



approaches to be used in a community assessment process can include some or all of the following:

- gathering demographic information and health status data on the community
- review of other needs assessments and relevant published research
- interviews with key community, constituent and opinion leaders
- focus groups, surveys and other primary source research
- cataloging community assets or resources
- public and invitational meetings
- contact with other funders

Advocates should review plans for any community or needs assessment critically to determine whether a range of viewpoints will be heard and whether the sources and methods will tap into diverse constituencies, particularly those who are underserved. Meeting locations and schedules should be scrutinized to determine whether they will encourage members of vulnerable groups to participate. Arrangements for translation services, co-sponsorship by trusted neighborhood or community institutions, skilled meeting facilitation to encourage full participation can improve the quality and inclusiveness of the assessment process.

### **Participation on governing boards**

Forming the board of directors of the conversion foundation is among the most important and sensitive tasks of the foundation planning process. In early conversions, the board of the nonprofit was frequently continued intact, or only a limited number of new members were added to gain expertise for foundation programs and operations. This practice rested on the misunderstanding that directors of the converting nonprofit had a continuing right to control the use of assets following the conversion. It omitted the critical steps of identifying the leadership needs of the new entity and opening up the board selection process to recruit the best candidates.

#### **Columbus Medical Association Foundation, Columbus Ohio**

Assets of the Columbus Medical Association Foundation were substantially increased in 1992 following sale of a nonprofit health plan. With a 40 year history as a philanthropic organization, the Foundation identified access to health care as a major focus for its expanded grantmaking. To shape an effective approach, the Foundation commissioned a study to establish the number of uninsured in its service area and to determine baseline measures of health status. A second phase of the study included discussions with leaders in community clinics, emergency rooms, shelters and neighborhood health centers to better understand how people experience barriers to care. Telephone interviews were conducted with more than 250 people who were uninsured, and a survey of shelter clients was also completed. Interview findings augmented the demographic analysis with experiential information that helped the Foundation understand gaps and flaws in existing systems and to determine community partnerships would be most productive in expanding access to health care in Columbus.

Hospital and health plan boards are frequently dominated by health professionals and business leaders. They lack the diversity of experience and viewpoint that are essential to inform a charitable grantmaking program created on behalf of the community.

Among the skills and qualities that are likely to be missing are:

- community expertise – direct experience with issues of concern to the foundation, access to groups most impacted and to local leadership, cultural competence and diversity
- public health expertise
- investment policy and investment management skills
- experience in the management of philanthropic programs.

In addition to failing to secure the most appropriate and best qualified leaders for the foundation, continuing the original board has led to conflicts of interest and the carrying forward of institutional reputation and relationship problems to the new foundation. There are particular problems with foundations resulting from joint ventures (when a nonprofit enters into a business contract with a for-profit corporation) and when the foundation is funded with stock in the for-profit successor. In these cases conflicts of interest are inevitable if a new and fully independent board is not formed to govern foundation.

More recently in several major and high profile conversions, regulators have required a nomination and selection process to determine governance of the new foundation. The standard set in model

legislation adopted by National Association of Attorneys General requires conversion foundation boards to be reflective of the community served:

“...any foundation established to hold the proceeds of the sale will be broadly based in the community and be representative of the affected community, taking into consideration the structure and governance of such foundation;”

The foundation planning process should include an assessment of the qualities and skills that will be needed and the criteria for selecting members of the new governing board. Some of the directors of the converting nonprofit may meet these criteria and there may be value in providing for continuity to protect the organization’s historic mission. But

#### **The California Endowment**

The public prominence of the Endowment, formed from assets of Blue Cross and Blue Shield of California, as well as its mission, called for a broad-based, inclusive recruitment process for forming the initial board. The goal was to create both an outreach component to identify candidates with the right background and expertise and a point of access for members of the public to suggest candidates. A consortium of executive search firms was formed to conduct outreach throughout California and to recruit board candidates who represented the state’s diversity and brought the desired mix of skills and experience to the board. An Advisory Group of health, nonprofit and business leaders guided the search. The screening and selection process included comment from the California Department of Corporations.

the process for selecting board members should address two goals:

forming a governing board that is reflective of the community to be served by the new foundation, and

securing the leadership, skills and connections needed for the foundation to be successful from the outset.

(More information on ensuring community participation on the governing boards of conversion foundations is available in two papers *Community Advisory Committees: An Important Structural Provision for Conversion Foundations* and *Conversion Foundations: Standards for Governing Boards*) which are also available from the Community Health Assets Project.

### **Ongoing Use of Standing and Ad Hoc Advisory Structures**

#### **Community Memorial Foundation, Hinsdale, Ill**

Formed in 1995 as a result of the sale of La Grange Memorial Hospital in Hinsdale, Illinois, Community Memorial Foundation conducted an early needs assessment to identify priority health issues in Lyons Township. Concerns about youth emerged as a key focus for the community. To give further definition to its health initiatives for young people, the Foundation formed a council with an equal number of youth and adult members. Additional youth were recruited to oversee focus group research and to formulate guiding principles for the Foundation's youth programs. A key value articulated was to utilize the energy and interest of youth as an asset for community improvement. The resulting grant program integrated the practice of active youth participation by requiring all applicants to demonstrate how young people had participated in planning the proposed program. The Foundation's youth advisory council was part of the review process for responses to the Youth Initiative Request for Proposals.

Community participation is essential in the ongoing work of a conversion foundation and is widely accepted as sound practice, particularly for philanthropies with a geographic focus. Foundations use permanent advisory committees to gain the advantage of diverse viewpoints, to access expertise in particular fields of interest, to improve their understanding and coverage of wide territory, and to extend the reach of their governing boards and staff. Similarly, ad hoc advisory committees, working groups or task forces may be formed to undertake discrete assignments. Advisory groups are used successfully for outreach, program design and development, grant application review, management of special program initiatives, periodic or ongoing evaluation and to provide feedback on foundation activities and procedures. The use of advisory structures can significantly expand opportunities for community



engagement and enrich and strengthen connections between a foundation and its constituents.

Meaningful and responsible use of advisors requires that the foundation make a realistic assessment of the resources required for the assigned task or responsibility. Advisory groups should be provided with staff assistance, financing or other support adequate to their task. Clarity about the assignment, the extent of their authority, duration of the advisory group and the terms and responsibilities of individual members are also critical. These issues should be covered in written materials and provided to new and prospective members of advisory groups.

Advocates should examine the bylaws and operations of new (or existing) conversion foundations to determine if community members serve on board committees, and if other advisory groups or structures are used. In assessing established conversion foundation, advocates should consider the foundation's record for using advisory groups in varied and meaningful roles, the diversity of viewpoints and background represented among advisors and the inclusion of people who are intended to benefit from the foundation's activity. The comments of people who have served in advisory roles should be sought.