Association of Governing Boards of Universities and Colleges

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OCCASIONAL PAPER NO. 48

Assessing New Entrepreneurial Activities for University-Related Foundations

By Gerald B. Fischer

EXECUTIVE SUMMARY

University-related foundations considering new entrepreneurial activities should examine several questions and criteria before pursuing such opportunities. Each foundation has its own strategic priorities, values, and culture, and what works for one may not fit another. While the differing historical, tax, and legal environments facing foundations could lead their executives and directors to different decisions, the following may serve all as useful guideposts:

1. Mission Fit. Foundation leaders must constantly ask, "Would the invit ing idea fit with what the foundation was created to do?"

2. Sound Financial Planning. Due to the limited resources of most foundations, the appropriate board committee should ensure that staff thoroughly studies the financial realities of any nontraditional opportunity.

3. Capacity of Staff and Other Resources. Carefully consider whether it makes sense to take on a new activity without gauging the staff's expertise or competence or without adding additional staff.

4. Diversion of Management Talent. To what extent would the new activity divert the attention of the senior staff and/or board away from the core functions of the foundation?

5. Perceptions of Key Constituencies. Some valuable constituents may perceive that a certain nontraditional activity is inconsistent with the normal goals, culture, or values of the foundation. It is important to maintain the foundation's "trust compact" with these stakeholders.

A**s foundations affiliated** with public universities and systems have grown in size, strength, and sophistication, they have experienced increasing demands—and opportunities—to "do good" for their host institutions. These opportunities differ from the normal functions of foundations. Often, they are projects that the university itself cannot perform for legal reasons, that the university would not accomplish as effectively, or that the university would be uncomfortable pursuing on its own.

Opportunities to pursue "nontraditional" activities are increasingly a fact of life for institutionally related foundations regardless of their size or the type of public institution they support. Foundations are being asked to consider unusual investments or activities because their essential characteristics make them inviting collaborators. These characteristics include an independent legal status that confers comparative flexibility, professional and specialized expertise among the ranks of board members, and good reputations as enterprises that "make things happen" and "get things done well."

Foundation directors or trustees are regarded as influential leaders in many communities of importance to the future of the university. They have expertise in varied businesses and markets and are eager to introduce opportunities for investment to the foundation and to help ensure success.

This paper is intended to help foundation directors and trustees explore the types of opportunities that arise most often for foundations and to suggest some criteria for use in considering whether to proceed with a given proposal. It also offers suggestions for sound implementation of well-laid plans.

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A Foundation's Mission. The purpose of most university-related foundations is to engage the resources of the private sector for the purpose of enhancing the excellence of their sole beneficiary, a public institution of higher education. We often say that foundations exist to create, maintain, and widen the "margin of excellence" at their affiliated universities.

Through their status as independent legal entities, foundations help assure donors and prospective donors that their gifts will not be commingled with public funds and thereby diverted to a purpose other than what the donors desire. The private resources marshaled by the foundation include not only the financial gifts and grants that donors provide, but also the wisdom and work provided by the board of trustees and other volunteers who seek to enhance the foundation's beneficiary.

To carry out their missions, foundations generally pursue a range of traditional or core activities. Foundations recruit high-quality directors to serve on their governing boards and various capital campaign committees. They build the professionalism of the staff and oversee a strategic process of fund-raising activities designed to generate donations of financial gifts and research grants. Foundations provide stewardship of the donated assets by managing the investment portfolios and ensuring that gift proceeds are spent as donors intend. To support these general functions, foundations also provide the normal infrastructure—accounting, information technology, donor prospect research, planned-giving services, prospect coordination, communications, and event planning.

Usually, foundation performance is measured by the number and size of new gift commitments made during a fiscal year, the total asset base, the endowment size, the total investment return on assets under management, monies disbursed to the host institution, and other indicators of how efficiently and effectively the foundation is operated (such as the cost to raise a dollar).

As independent legal and financial entities, however, foundations can go beyond such "plain vanilla" functions. Foundations can move more quickly, flexibly, and with less bureaucracy than most public agencies. They increasingly are a source of financial strength and power. Their directors, in particular, can be of enormous support to the foundation chief executive in articulating to key stakeholders the rationale either for undertaking a new activity or not doing so.

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Nontraditional Entrepreneurism. Several types of nontraditional or entrepreneurial activities recently have occupied the time of foundation executives and boards. The Internal Revenue Service classifies several of these activities as "unrelated business," which may make any income they produce subject to income tax.

Foundations can move more quickly, flexibly, and with less bureaucracy than most public agencies.

Some examples:

- Purchasing, developing, and/or managing real estate for university expansion, student housing, retirement communities, or primarily to increase foundation revenue with no direct connection to a university purpose.
- Owning facilities on university property.
- Investing in promising university research.
- Holding licensing agreements and other forms of intellectual property.
- Borrowing or guaranteeing the debt issues of third parties.
- Leasing or owning aircraft for university or foundation use.
- Leasing or owning research equipment for use by university faculty or students.
- Facilitating or investing directly in industry-university collaborations.
- Investing endowment assets in the university's technology-transfer activities.
- Expending unrestricted gift proceeds as grants for strategic projects or for which no other natural funding source exists.
- Investing endowment assets in "alternative" investments.
- Holding, managing, or operating business enterprises (often received as gifts).
- Selling or swapping donor lists.
- Facilitating or brokering corporate sponsorships or exclusivity contracts.
- Licensing or selling the foundation's own technology, Web site contents, or other intellectual property.
- Implementing an incentive, supplemental compensation plan for the professional development staff.

All items on this list have been considered and/or undertaken by major university-related foundations in recent years. The list is not comprehensive; there is no limit to what creative and well-intended minds can propose. The University of Minnesota Foundation, where I work, has considered virtually all the ideas on this list. After thorough analysis and consultations with our directors and outside advisers, we implemented only some of the proposals.

Assessing New Activities. Several questions and criteria are pertinent in considering any foundation activity, either existing or potential, as boards or senior staff consider policies and procedures that support good business and fulfillment of the overall mission. Each foundation has its own set of strategic priorities, values, and culture, and what works for one organization may not fit another.

The criteria that follow naturally reflect the priorities, values, and specific circumstances of the University of Minnesota Foundation. While the differing historical, tax, and legal environments facing other foundations could lead their foundation executives and directors to make different decisions, the criteria may serve as useful guideposts for all foundations. In deciding whether to undertake new, innovative, entrepreneurial, or nontraditional activities, it may be useful to consider the following key criteria: (1) mission fit, (2) sound financial planning,, (3) capacity of staff and other resources, (4) diversion of management talent, and (5) perception of key constituencies.

- *Mission Fit.* Mission clarity is crucial to any successful enterprise. Probably the most important question centers around whether the proposed activity is consistent with the foundation's mission. Does the proposed activity have high integrity with the mission of advancing the excellence of the university? Does the activity represent a probable or likely diversion or drift from the core mission?

There will be many tempting opportunities to do good work for the college community, for the students, for the faculty. But foundation leaders must constantly ask this question: Does the inviting idea fit with what the foundation was created to do?

Three Sample Entrepreneurial Activities of

DEVELOPING A BIOTECH INCUBATOR FACILITY. **One of the University of Minnesota's top priorities is to strengthen its technology-transfer capabilities. A recent study chaired by the dean of biological sciences and the director of entrepreneurial studies in the Carlson School of Management recommended the university build a biotech incubator facility on or near the campus. The study advocated a nonprofit structure and private fund-raising for the project, an approach that would be faster and more effective than any attempt to gain approval through the capital-planning process at the university, which was crowded with other high-priority projects. Also, private development likely would offer opportunities to involve industry partners in the planning and development. The university president agreed that this project was a high priority and asked that it quickly proceed.**

The University of Minnesota Foundation was asked to assume a leadership role, which included using its nonprofit status and working with potential corporate partners who desired greater collaboration with university researchers. In evaluating our potential participation, we applied the criteria in these pages.

First, there was a good fit with our mission. A clear connection existed between the university's ability to attract and retain top faculty and graduate students and an environment that encourages the movement of ideas from the laboratory to the marketplace. We saw that an incubator would help foster and strengthen that kind of supportive environment.

Second, the financial analysis was compelling, whether the facility would be located on campus or nearby.

Third, a recent expansion of our finance office provided a level of expertise in this kind of activity that could provide day-to-day stewardship of our participation. Also, an excellent candidate was identified to be the project leader, and we knew of an "owner's representative" for development/construction projects who said he would be available.

Fourth, we were concerned that a long-run involvement would suggest too much of a controlling role in an activity that could become a diversion from our primary role of leading the fund-raising function for the university community.

Fifth, we believed our key constituencies would understand and be supportive of our role in helping to create an asset they knew was needed to advance this dimension of the university's research mission. In the end, we decided to play a facilitative rather than controlling role. Initially, the project can take advantage of our nonprofit status until we find another acceptable nonprofit owner. The foundation may make a minority investment if that would help encourage other investors. We are using foundation counsel to guide the legal and tax aspects, and the foundation has provided start-up operating expenses. Because this project is unfolding as this is written, it is possible that new developments may convince us to shift our leadership role to a private developer or cause us to upgrade our minority position with an increased investment commitment. However, because we are in the midst of a major capital campaign and do not want to be diverted from our core business, we will remain cautious about the extent of our involvement in the biotech project.

Our foundation would resist activities that promise to build the foundation without a close or direct connection to advancing the university. For example, it would be difficult for us to accept owning, managing, and operating a company donated by an alumnus whose sole purpose would be to earn higher revenue for the foundation. On the other hand, we created a company as a for-profit subsidiary of the foundation to own and operate supercomputers that would be available to the university faculty and students as well as to industrial clients. The foundation board provided most of the board members for the subsidiary. And, after several years of operation during which we obtained the foremost computing power in the

the University of Minnesota Foundation

INVESTING ENDOWMENT ASSETS IN TECHNOLOGY TRANSFER. **We have long been attracted to the idea of investing a small portion of the endowment portfolio in the royalty streams or equity of start-up companies commercializing discoveries by university faculty. With high hopes for big payoffs, the use of foundation assets to support this aspect of technology transfer on the surface seems attractive. However, we have consistently resisted this tempting opportunity. While it met the mission-fit test, we have been concerned about the high-risk aspect of start-up companies.**

We also noted that the development of a fair and effective screening process likely would involve a heightened personnel commitment. Finally, we were concerned with the adverse reaction by donors who might consider using the endowment to invest in "internal" activities akin to a company investing employee pension assets in its own stock. The strategy may work fine if all goes well, but if trouble develops, the confidence of key constituencies could be shaken.

INCENTIVE COMPENSATION FOR THE PROFESSIONAL FUND-RAISING STAFF. **For more than 15 years, the University of Minnesota Foundation has used a supplemental compensation plan for the professional development staff at the foundation and in the colleges and campuses of the university. The program was launched with a generous gift from one of the foundation's entrepreneurial board members who was eager to distinguish the performance of the development staff from that of the academic staff.**

By the standards of the for-profit world, the program provides for modest awards of up to 10 percent of one's base salary if one's performance on the defined essential accountabilities of the job is considered outstanding and if the staff member achieves three defined "stretch goals" during a given fiscal year. Until recently, this has been a nontraditional activity in the nonprofit world.

The assessment criteria are helpful in gauging the appropriateness of this activity. The mission fit is excellent when the tool is effective at motivating the highest levels of professionalism among the staff and, thereby, creating a more effective fund-raising organization. The financial analysis has proven itself many times over.

We regard the cost of this program as an excellent "investment" in building a focused and capable organization. In our decentralized environment, where the collegiate development officers report directly to their deans, chancellors, and directors, this modest investment helps the foundation keep the decentralized and centralized staff focused on behaviors that are predictive of long-term success.

The perceptions of our key constituencies have absorbed much of our planning and care in implementing the program. Because commission-based fund-raising is unethical, we continually reaffirm and communicate that our program is an incentive plan, not a bonus plan.

Also, we prohibit any goal that is based on the gift dollars produced. Rather, the stretch goals are expressed as behaviors that are predictive of long-term success—for example, number of cultivation events with top prospects during the fiscal year. These program characteristics are communicated annually to the participating personnel, to our board, and to university administrators.

After many years of living with the incentive compensation program and communicating its merits, we believe it is well accepted and, most important, that it is making a positive difference in the performance of the professional development team at the University of Minnesota.

world and made it available to the university community on favorable terms, we sold the corporation to a third party and earned a handsome capital gain.

This nontraditional, entrepreneurial activity used the special strengths and characteristics of the foundation to advance the excellence of the university. Therefore, it was considered an excellent fit with our mission. The subsidiary was able to take advantage of federal investment tax credits that lowered the effective cost of extremely expensive research tools—the early-stage supercomputers. This private-sector entity moved quickly to negotiate competitive purchase agreements for each new generation of supercomputing, as well as service agreements with many industrial users, while ensuring priority access for the university community on favorable economic terms. The company's governance was of the highest quality.

Though there were many challenges in operating the company and communicating the rationale for the foundation's involvement to donors, legislators, and others, starting the subsidiary proved to be a winning strategy. Providing convenient access to state-of-the-art supercomputing on attractive economic terms was an important factor in the university's ability to recruit and retain outstanding faculty from the early 1980s to the mid-1990s, not to mention the profound research and many discoveries it also facilitated.

• *Sound Financial Planning.* The foundation board or appropriate board committee (the finance or executive committee, for example) should ensure that staff conducts thorough homework on the financial reality of any nontraditional opportunity. Most foundations have limited resources. Unrestricted funds are especially scarce. No foundation can afford to undertake activities that represent an ongoing or significant potential drain on its resources or that threaten its core functions. A common warning many development professionals cite that I heartily endorse says "Don't accept gifts that eat."

Before accepting any gift of real estate or an operating company, for example, our staff performs "due diligence," going through a checklist of potential liabilities and risks. If the gift involves a significant liability or undetermined risk—environmental exposure, for example—we will not accept it without appropriate indemnification in most cases. Some foundations that have accepted gifts of operating companies, for example, unwittingly end up becoming the managers of those companies. In some cases, they have experienced annual losses or exposure to losses and eventually had to liquidate the asset.

It also is important to understand whether the proposed activity is consistent with the nonprofit purposes of the foundation or whether it involves special tax treatment, such as the unrelated business income tax (UBIT). If so, the activity may involve establishing a for-profit subsidiary of the foundation as well as separate, specialized accounting treatment.

The risk of an unrelated business activity and the resultant tax is worth a special focus. The IRS has evidenced a sharp interest in this area in recent years as it has audited colleges and universities. Foundation and host-institution tax counsel should be consulted while a foundation is considering any activity that may be outside the established ground rules for nonprofit, nontaxable activities. A proposed activity that is deemed to involve UBIT may be completely worthy and acceptable, but everyone involved must understand the implications of establishing a for-profit subsidiary and creating separate accounting treatment in advance. AGB, the National Association of College and University Business Officers, and other national associations have resources available to suggest "best practices."

Various funding sources may be possible for nontraditional activities. The proposed activity may involve using the foundation's reserves, a specific donor fund, or the investments supporting the foundation's endowment. The financial analysis should include relevant return thresholds and other tests appropriate to the funding source. For example, using endowment assets to own an equity position in a new company being formed around a research discovery from a professor's laboratory brings with it the compelling argument of achieving two goals at once—potential investment return and supporting faculty in technology transfer.

In such cases, however inviting, it is crucial that the investment tests be the same as for all other investments in the endowment. Do the projected risks and returns fit the profile for the rest of the portfolio? This test is important to ensure the fiduciary responsibility of the board is not being compromised. Any use of endowment assets should stand the test of a review by the foundation's investment committee.

Likewise, if the proposed activity involves tapping the reserves or unrestricted funds of the foundation, the financial analysis must include an assessment of what other opportunities exist for using these scarce resources. Prioritizing all scarce resources—financial, personnel, and technology—is an essential discipline of any well-functioning business. In most foundations, the executive committee oversees the expenditure of unrestricted funds and approves policies related to these funds. The executive committee normally would be a good forum in which to approve the financing plan for any major nontraditional activity.

Any good financial analysis must include a thorough look at all potential financial risks or exposures. Many such risks can be indemnified or may be deemed acceptable without the acquisition of insurance. My main point is that all decision makers must be aware of the risks through a realistic assessment before the decision is made.

Some situations may involve an option to lease or buy the asset under consideration. Because of the relative claim on capital assets and leveraging the respective assets of the foundation or outside parties, all available alternatives should be carefully analyzed.

As foundations have grown in size and sophistication, the option of entering into borrowing arrangements has emerged as an intriguing mechanism to leverage assets more effectively—either to accelerate capital projects or to realize more financial power from the endowments beyond the typical annual spending policy of 4 percent to 5 percent. It becomes particularly inviting to consider using this method to accomplish high-priority strategic projects when interest rates are at historically low levels. If the project qualifies, the use of tax-exempt financing may be advantageous and could be obtained either by private placement or in the public markets.

The public-market option may entail meetings with the debt-rating agencies, preparation of prospectus descriptions of the project's financial viability, and various covenants. The debt-rating agencies tend to view foundation assets and liabilities as an extension of the host university financials. In that context, the borrowing activity of the foundation may affect the university's debt rating or borrowing capacity.

If the project is for purposes unrelated to the university's purposes, a portion of the income earned on the project will be classified as "debt-financed income." Then the ratio of the debt, which is called "acquisition indebtedness," to the overall cost of the project will produce a fraction that equals the portion of the income that is considered taxable under the UBIT.

Within the last couple of years, the University of Minnesota Foundation (UMF) found it advantageous to guarantee a tax-exempt, revenue bond offering. We used this strategy to fund the construction of a new office building and alumni/welcoming center on the flagship campus of the university. UMF, the University of Minnesota Alumni Association, and the Minnesota Medical Foundation created a jointly owned, private nonprofit corporation. UMF had the financial strength to guarantee the performance of the affiliated corporation that was formed to build the $46 million, 235,000 square-foot construction project and operate it.

The university and three "owner" organizations agreed to lease the entire office space for at least ten years. The resultant lease payments would more than service the $40 million debt offering. Private gifts were then raised to build and furnish the public reception and meeting spaces in the alumni/welcoming center as well as an adjacent park/plaza. The guarantee, for which UMF is paid a fee, is treated as an off-balance-sheet liability of the foundation. Two of the national debt-rating agencies assigned a debt rating to the guarantee, which extended to the debt offering.

We regard this mechanism as highly appropriate because it furthered the mission of the university as well as the missions of the three organizations. It made good sense financially, permitting the project to be funded at an attractive cost of capital, supported entirely by the financial characteristics of the project itself. There is a low likelihood of any claims being made on the foundation or any of the other owner organizations, and the financial model provides for the buildup of reserves to cover long-term contingencies and replacement of major operating systems.

A word to the wise on conducting a thorough financial analysis: Respect and impose the discipline of an objective assessment of the financial risks and opportunities involved in

As foundations have grown in size and sophistication, the option of entering into borrowing arrangements has emerged as an intriguing mechanism to leverage assets more effectively.

any proposal. Often, successful foundations come to be regarded as the university's "inside bank." Those who view them this way see them as an unending source of operating and capital resources to be called upon to solve virtually any problem or need that may arise at the host university.

There will never be a shortage of worthy ideas to advance or rescue outstanding programs within the academy. To respond to appeals for support, the foundation must have well-grounded information on each opportunity to help determine the best decisions or to rank multiple proposals on their financial merit. The most important benefit of a good financial analysis is the assessment of risks of potential exposure of the foundation's reserves to failing investments. Foundation directors bring objectivity and superb judgment to bear on entrepreneurial proposals. At the University of Minnesota Foundation, we frequently call on the expertise of board members to help us capture unusual opportunities as well as avoid pitfalls that may have eluded the staff.

What does a foundation board chair do with the financial analysis? The analysis is only one piece of the decision framework, but it is an important piece. If the project is not financially viable, and if acceptable terms cannot be achieved through negotiation, then it should be rejected. This may be extremely difficult to do, especially if a beloved university president or a committed and active volunteer or donor has suggested the project or activity. Nevertheless, the long-term health of the foundation and the discipline of well-informed and sensible decision making must be the bases for the final judgment.

Assuming the proposed nontraditional activity is a good fit with the foundation's mission and that a good and thorough financial analysis points to a viable opportunity, then one final set of criteria come into play before foundation leaders can decide whether to proceed. These criteria generally relate more to the "how-to-implement" aspects of the activity rather than the "what" of the decision, which is addressed by the first two criteria. I have observed that a great strategy poorly implemented will fail, while a flawed strategy that is well implemented will be widely regarded as a success. So, the issues surrounding a successful implementation often are as important as the criteria applied to deciding whether the project is a good one in the first place.

- *Capacity of Staff and Other Resources.* In most foundations, the existing professional staff is fully committed to traditional, core functions. Foundation leaders should carefully consider whether it makes sense to take on a new activity without gauging the staff's expertise or competence or without adding additional staff. In many cases, it may be necessary and appropriate to outsource some functions. Outside expertise may be useful, for example, in developing, building, and managing real estate projects or an investment portfolio involving venture or intellectual capital.

If outside resources are needed, it may be appropriate to hire part-time or full-time consultants until the project grows to sufficient size to justify adding an employee to the permanent staff. In fact, as UMF pursued the new alumni/welcoming center and office building, we hired an owner's representative to track the design, development, construction, and launching phases of the project. No such expertise existed within the staff. Though we drew heavily on the expertise of volunteer leaders for overall project management, financial analysis, and fund-raising, we used outside resources for special functions throughout the project, which was critical to its ultimate success.

Another important task is to assess the potential effect of a new project on the foundation's management, financial control, and information systems. Does sufficient capacity exist to absorb the new initiative? Is new software needed? Can existing systems be adapted to the new activity easily, or will this be difficult? Are there special accounting, tax, or legal treatments that need to be utilized?

- *Diversion of Management Talent.* Adding any new activity inevitably will involve additional work and attention from the chief executive and financial officers and other senior managers. It is important to develop measures of effectiveness. Especially in the launching stages of a new project, top executives frequently will need to make important strategic and policy judgments, and the board should require updates on the entrepreneurial enterprise. Identifying, recruiting, and negotiating terms with new staff members—whether internal or external—usually requires the involvement of the senior staff leadership. The key issue is the extent to which the new activity diverts the senior staff and/or board attention from the core functions of the foundation.

UMF has resisted some potentially attractive opportunities because we were concerned that they could disrupt the organization's focus on a capital campaign. Such campaigns usually require the full attention of the leadership and staff, though we managed to complete the development and construction of our new alumni/welcome center and accompanying office building during the early years of the campaign. That project involved weekly committee meetings and numerous interventions between scheduled meetings by senior management. We believed that undertaking other nontraditional activities would risk diverting us from our top priority of delivering a successful capital campaign.

A case in point involved a student housing project. An outside developer proposed to buy the property near the campus, build a unit with 500 beds, work with the city government to obtain all necessary permits, and then turn the project over either to the university or the foundation at a "bargain price." The university had identified as a major priority the expansion of on-campus or near-campus student housing. The financial analysis indicated a marginal deal at the terms presented.

The deal-breaker, however, was our concern regarding the management time that would be required to negotiate an attractive financial arrangement and then to determine how best to manage the property for the long run with minimal operating risk. To minimize the risk of a diversion from higher priorities, the foundation would have had to hire an expert to track the project, consult with university housing staff, and then operate the facility. The need to hire additional staff expertise adversely affected the already marginal financial analysis, but a major obstacle for us was the potentially large claim on our leadership resources.

Each of these activities involves making good judgments after weighing multiple factors. If the student-housing proposal had involved highly attractive financial terms, then we would have made an earlier effort to determine whether and, if so, how we could incorporate the activity into our portfolio of responsibilities without a major drain on our top people.

In many ways, time is our most precious commodity. How leaders choose to commit that time communicates to an entire organization what the top priorities are.

The key issue is the extent to which the new activity diverts the senior staff and/or board attention from the core functions of the foundation.

• *Perceptions of Key Constituencies.* The most valuable asset of any university-related foundation is the trust and authority it has earned from its key constituencies. A foundation's reputation is built over many years with donors, alumni, and friends; business, community, and government leaders; and with the university president, regents, deans, chancellors, and other administrative and faculty leaders—not to mention the foundation's own board and staff.

Some of these individuals may perceive that a certain nontraditional activity is inconsistent with the normal goals, culture, or values of the foundation. Someone may regard real estate development for non-university use, for example, as a sign that the foundation is more concerned with its own ends than with building the excellence of the university. As well intended as it may be, a foundation that is investing and managing student housing may be viewed by the university's director of student housing as a competing enterprise.

Maintaining the foundation's "trust compact" with key stakeholders must be a top priority. Communication plans should be developed to clarify the rationale, motives, and attractive features of each nontraditional activity. Also, a clear statement of how the activity fits with the mission of the foundation is essential.

Be able to state clearly how this new enterprise is intended to advance the excellence of the foundation's sole beneficiary—the university. Sometimes the benefit may be realized after several years, but reasonable people will understand the long-term investment strategies. If it is difficult to articulate how the proposed activity fits the university's mission, that may be a danger signal. If too many constituents perceive that "the leopard is changing its spots," then the trusting environment you have enjoyed will decline as the foundation becomes more defensive in articulating its reason for being.

A clear, effective, and compelling communications plan should include face-to-face meetings with the influence leaders within the key constituencies. The "how" of a successful strategy often is more critical than the "what" of the initiative.

Maintaining the trust with key constituencies requires openness in attitude and style. Aside from maintaining the confidentiality of all donor, prospect, and employee files, it is important to answer all questions about operations, whether from close associates, colleagues from other organizations, or by the press. Answering questions candidly is an opportunity to build greater understanding and trust.

One area where this openness has been helpful is in our alternative investment strategies for the endowment portfolio. In recent years, as society has gained greater understanding of financial and portfolio management, the inquiries received about the process and substance of endowment investment management also have become better informed. How and why we have increased our investments in private equities, absolute-return instruments, inflation-indexed bonds, and high-yield instruments has presented an opportunity to explain our asset-allocation policy as well as the structural changes we have implemented to improve the level of talent focused on this important function.

A few years ago, we implemented a nontraditional corporate structure for managing the endowment. We created a new subsidiary of the foundation called University of Minnesota Foundation Investment Advisors (UMFIA). It has its own board of directors comprising seven members, all of whom possess investment expertise. The subsidiary's board hired a chief investment officer who handles all operational matters in selecting managers, monitoring performance, and maintaining relationships with the market operatives. The board members themselves focus on asset-allocation policy through which the risk/return balancing decisions are made.

Endowment spending policy is left to the parent foundation board, but strong communication linkages are assured between the two organizations through at least two overlapping board members and the foundation chief executive and chief financial officer, who serve on the UMFIA board in an ex-officio capacity. Communicating the rationale for this unusual structural change, which also involved the goal of recruiting and retaining a high-quality chief investment officer, has been a useful confidence-builder for our donors and university colleagues.

The Trust Compact. As university-related foundations continue to build large asset bases and demonstrate how engaging private support effectively can uplift the quality of their host universities, more opportunities to pursue nontraditional activities will present themselves. By applying various screens and criteria in assessing these opportunities, foundation leaders can increase the likelihood of successfully implementing new strategies and avoiding pitfalls. The "trust compact" of authority and confidence developed throughout any university-related foundation's life remains invaluable as long as no nontraditional activity that a foundation undertakes undermines its ability to perform its core business. ◆

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The AGB Mission

The Association of Governing Boards of Universities and Colleges (AGB) is dedicated to strengthening the performance of boards of public and private higher education. It advances the practice of citizen trusteeship that has distinguished American higher education for more than 350 years. By serving as a continuing-education resource to trustees and boards and by contributing to effective working relationships between boards and chief executives, AGB seeks to strengthen the governance of higher education institutions.

AGB recognizes its leadership responsibilities to members and to a diverse system of higher education. The association strongly believes in citizen control of our colleges and universities, rather than direct governmental control, and works to ensure that higher education remains a strong and vital national asset.

AGB carries out its mission adhering to the following objectives:

- To educate individual trustees and boards on matters that affect their institutional oversight responsibilities.
- To promote wider understanding of and appreciation for citizen leadership and lay governance as the only effective ways to ensure the quality and independence of American higher education.
- To advance the philosophy that all elected or appointed trustees serve in the public trust and should consider themselves trustees of higher education as a whole.
- To strengthen the relationship between trustees and chief executives in the fulfillment of their distinct yet complementary responsibilities.
- To stimulate cooperation with public-policy makers, government agencies, and private organizations that have a stake in the effective governance and quality of colleges and universities.
- To identify and study emerging public-policy issues of concern to higher education by providing forums for their discussion and by encouraging appropriate member initiative.