Consistency, Continuity and the Future

There are times in the life of an organization that are marked by monumental changes: new directions, new initiatives or new personnel. Yet, there are other periods where an organization proverbially puts one foot in front of the other, steadily moving down a path of continuity and advancing toward meaningful goals.

2004 was the latter kind of year for the Mott Foundation. We honed the details of our operation, with a special focus on governance, grantmaking, technology and investments.

My past three annual messages have reflected on the need for the nonprofit sector — including the foundation community — to embrace good governance, accountability and ethical practices while operating in a milieu that can be described as challenging at best, and threatening at worst.

Both charities and foundations have continued to examine their practices in these arenas. In October 2004, at the invitation of the chairman and ranking member of the U.S. Senate Finance Committee, Sens. Charles Grassley (R-Iowa) and Max Baucus (D-Montana), Independent Sector convened the Panel on the Nonprofit Sector.

I was honored to serve on this national panel of 24 leaders from public charities and private foundations. The panel's charge was to consider and recommend actions to strengthen governance, ethical conduct and accountability within public charities and private foundations.

Our work was augmented by more than 100 experts, who served on five work groups, and a Citizens Advisory Group that provided a broad perspective on how these issues affect the public at large. We met frequently, held 15 field hearings and numerous conference calls, and received feedback on the panel's Web site.

In nine busy months, we met deadlines by crafting an interim report in the spring and a final report in the early summer.

The panel's final report, *Strengthening Transparency, Governance and Accountability of Charitable Organizations: a Final Report to Congress and the Nonprofit Sector,* was completed in June. Further comments will be forthcoming in the fall. The report and related material are available on the panel's Web site, NonProfitPanel.org.

While these and other efforts at the national and state levels are absolutely essential, fostering good governance, promoting accountability and maintaining ethical practices begin at home. These issues remain at the top of our trustee and management agendas at Mott. Two years ago our Board of Trustees approved the Foundation's first formal Code of Ethics, which you will find inside the front cover of this book as well as on our Web site

(Mott.org). But we did not stop there, recognizing that good governance requires ongoing nurturing, not complacency.

In mid-2004, we developed a formal Whistleblower Policy. It clearly lays out the responsibilities of Trustees, officers and employees to comply with the Foundation's Code of Ethics and Conflict of Interest Policy. (The latter was developed in the late 1960s and is reviewed annually.) The Whistleblower Policy also details the procedures and contact information for reporting violations.

Later in the year, we took a close look at recommendations from nonprofit governance groups related to the applicability of the federal Sarbannes-Oxley Act of 2002 to the nonprofit community. We came to the conclusion that, for the most part, we already have put into place those recommendations that make sense for us as a foundation.

At the same time, the Foundation's Audit Committee charter was revised to formalize procedures that it had been following, but that were not included in its original charter. In addition to overseeing the Foundation's annual audit and ensuring appropriate financial controls are in place, the committee also develops those policies that set the governance practices for the Foundation.

Against this framework, we do our day-to-day work of making grants within our four programs. For the second year in a row, we held our grants budget close to the $100-million level. In 2004, we made 558 grants totaling $98.7 million to grantees in the U.S. and abroad. A report on our grantmaking begins on page 7. Using the theme, "Reaching Across Boundaries," we explore the work of grantees that have created unusually effective collaborations to help them achieve their goals.

Our grantees are geographically diverse, and they vary in size, budget and focus. Our grantee community, which at any given time numbers approximately 650 organizations, is one of our most important constituencies.

We value our relationships with our grantees, and have learned — and continue to learn — a great deal from these partnerships. They have, over the years, helped us to become better grantmakers. Our grantees provide our staff with a clearer understanding of the critical issues in the fields we support, and offer invaluable insights into the challenges associated with implementing projects with our support.

The Center for Effective Philanthropy (CEP), a nonprofit organization based in Cambridge, Massachusetts, has been conducting surveys of grantees and trustees for foundations since 2003. We embraced the opportunity to participate in both in 2004.

The first, the Grantee Perception Survey, queried a cross-section of our grantees on four issues: grantee satisfaction with the process of doing business with us, how we communicate (both formally and informally) with grantees, the impact of our administrative processes and procedures, and whether any assistance we offer beyond the grant check has value and to what degree. We were scored as an individual grantmaker, as well as being benchmarked against the 28 other funders in our survey cohort. All responses were anonymous.

We received very positive feedback on

many measures of perceived impact as well as on our relationship with grantees. At the same time, our grantees provided us thoughtful insights and suggestions on improving our performance in a number of areas. These include:

- streamlining our administrative processes, especially for smaller grants;
- improving our formal communication products to increase grantees' understanding of the Foundation;
- articulating more clearly our strategies and the reasons we fund in our chosen fields; and
- increasing our staffing (particularly international staff) to provide even greater levels of service.

the mix of skills and experiences, success in shaping long-term strategy, participation in active discussions, meeting productivity, group dynamics and committee structure. Our Trustees perceived the Foundation's board more positively on most dimensions relative to other foundation boards' self-assessments, citing an excellent mix of capabilities and high levels of effectiveness.

The presentation of findings from both surveys formed the basis of lively discussions among the Trustees, Mott employees and CEP staff.

One of the ways we believe we are improving our operations is through the use of technology to provide information to prospective grant applicants and current grantees. We anticipate providing the latter group the opportunity to interact with us in an online environment within the next 12 months.

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Since the receipt of the study findings in the fall, we have been looking at ways to improve our operations based on those suggestions. However, we also continue to stress those ongoing practices that our grantees value. For any reader interested in greater detail, the survey findings are posted at Mott.org.

In addition, our Trustees participated in a study of 53 foundation boards. The Comparative Board Report that was produced examined a range of elements comprising board effectiveness, including

Toward this end, we continue to make content upgrades and add new features to our Web site. We became one of the first foundations to provide detailed information on the provisions of the USA PATRIOT Act via our Grantee Toolbox (Toolbox.Mott.org). At the same time, we developed and are now rolling out new tools on the same Web site to allow grantees to provide us with reports and

other data in a secure, online environment.

And finally, we saw a rebound in the Foundation's assets, which reached $2.52 billion on December 31, 2004, compared with $2.37 billion a year earlier. On page 6, a chart, "Total Assets at Market Value & Total Assets in 2004 Dollars," tracks our asset performance since 1963. Clearly, our portfolio is dependent on global and U.S. economic conditions, but despite the market's performance in the first quarter of 2005, I am optimistic that we will experience steady, normal — but not necessarily spectacular — long-term growth in our portfolio.

LOOKING TO THE FUTURE

Legacy and donor intent form the basis of an individual foundation's values and institutional culture. The critical issue is how trustees and managers — sometimes generations removed from a philanthropy's founder — can respect and nurture those values through contemporary grantmaking.

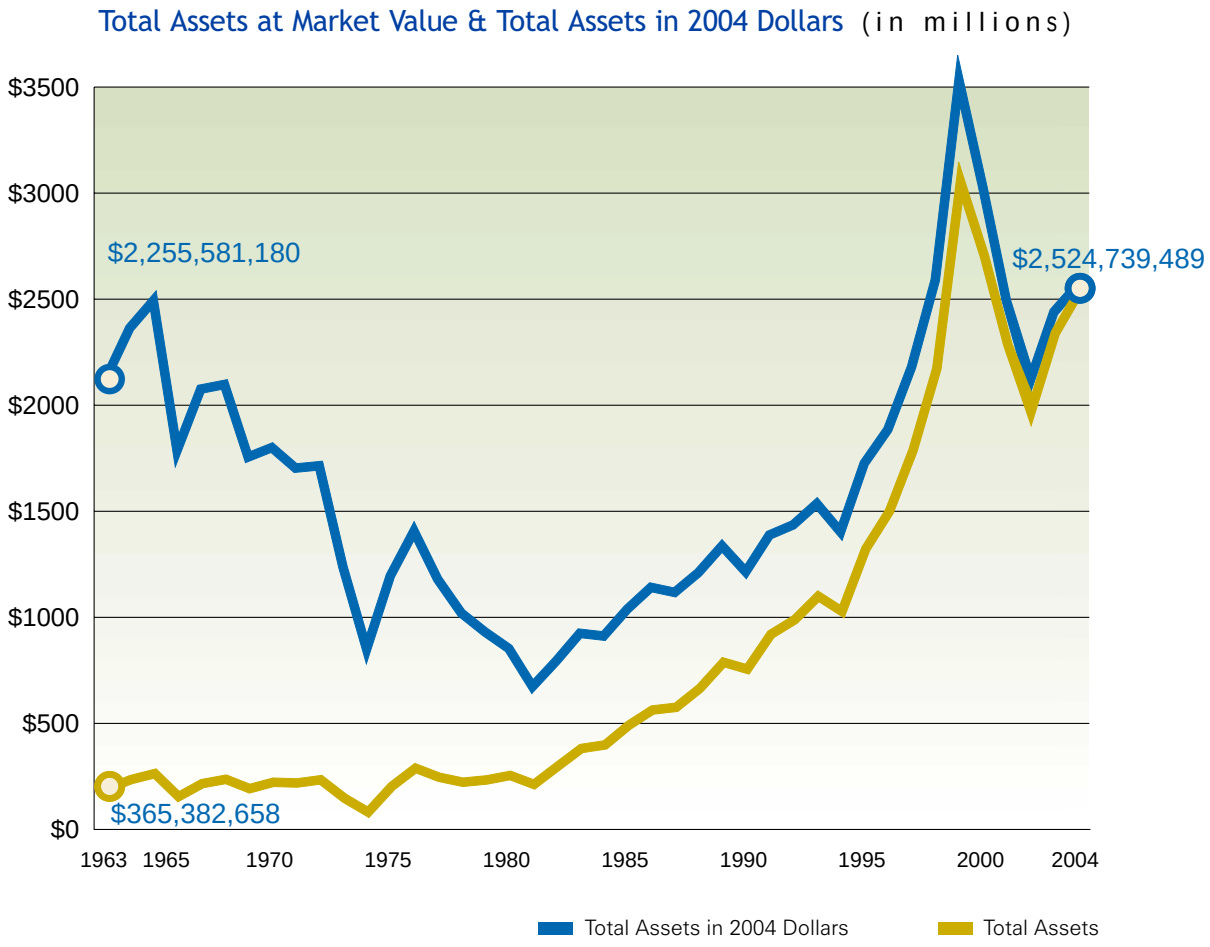
I believe that two elements have made this possible here at the Mott Foundation: continuity of leadership and involvement of Mott family members. In our nearly 80-year history, we have had only three presidents: our founder, Charles Stewart Mott; his elder son, C.S. Harding Mott; and myself. For a quarter century, C.S. and Harding shared an office. And, for several years, we all had the opportunity to work together. Since the Foundation's creation in 1926, 13 of our 39 Trustees have been family members. Today our 13-member board has five family members spanning three generations.

Looking to the future, we are developing a new generation of managers who not only have grantmaking smarts, but also understand and hold dear the characteristics that make this Foundation the unique organization that it is. Toward this end, I announced promotions approved by the Board in early 2005 of three individuals who will help me move the Foundation's programs forward in the years ahead.

Maureen H. Smyth was named Senior Vice President-Programs and Communications. Maureen had been Vice President-Programs since 1991. She also chairs the Management Working Group, which oversees the Foundation's day-to-day operations. Smyth has been with the Foundation since 1983.

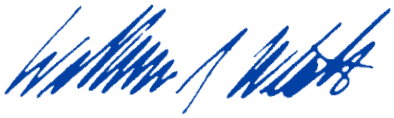
Two staff members were promoted to the position of Associate Vice President-Programs. Lois R. DeBacker will oversee the Civil Society and Environment grantmaking teams, and Kevin F. Walker will head the Flint Area and Pathways Out of Poverty grantmaking teams. DeBacker, an employee of the Foundation since 1991, had been program director for the Environment program. Walker, who joined the Foundation in 1995, had been program director for the Poverty program.

The Foundation's other vice presidents are continuing with their current responsibilities: Phillip H. Peters, Group Vice President-Administration and Secretary/Treasurer; Robert E. Swaney Jr., Group Vice President-Investments and Chief Investment Officer; Gavin T. Clabaugh, Vice President-Information Services, and Marilyn Stein LeFeber, Vice President-Communications.



Jack A. Litzenberg, who had served on an interim basis as program director of the Flint Area program, is returning to the position of Senior Program Officer for the Pathways Out of Poverty program. Raymond P. Murphy, formerly program director for the Civil Society program, has chosen to relinquish that role in order to focus on the Foundation's philanthropic efforts in Europe from his home base in Cork, Ireland. Both Jack and Ray have made significant contributions to the Foundation in the past and will continue to do so in the future.

In closing, a truly remarkable experience in 2004 was the visit of Archbishop Emeritus Desmond M. Tutu of South Africa to Flint in early June. He met privately with our Board of Trustees and staff; later that day, he addressed nearly 2,000 Flint area residents, speaking about racism and his experiences with South Africa's policy of apartheid. Later, he took questions from the audience. (A transcript of his speech, photos from his visit and related material can be found on Mott.org.) We believe his impact on those who heard him that day, as well as on the community as a whole, will continue for many years to come in ways that we may not be aware of, or even fully understand.



William S. White
President