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Viewpoint
Sunsetting in Style

By Alice Hengevoss & Georg von Schnurbein

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VIEWPOINT

Insights from the front lines

Sunsetting in Style

Foundations can turn the decision to spend down into a long-lasting and impactful legacy.

BY ALICE HENGEVOSS & GEORG VON SCHNURBEIN

Endowments afford foundations the luxury of eternal life, if they wish it. Indeed, many in the philanthropic sector believe that foundations should exist in perpetuity. But even those who hold this view often complain that foundations are spending too little on charitable purposes. Philanthropic foundations invest a large portion of their endowment chasing returns—the larger, the better. Sometimes, such investments end up fostering the problems that the foundation seeks to remedy.

Policy wonks push for higher payout rules for foundations. But such battles take time, if they are ever won. And with the slew of challenges facing society, such as climate change, rampant economic inequality, and forced migration, many donors and boards recognize that foundations must do more. One way foundations can do more is by deliberately spending down and sunsetting.

But many in the philanthropic sector resist such a solution. They view organizational death as defeat. It contradicts the fundamental idea that organizations are meant to increase functionality, not end it. However, deliberately choosing to close an organization can actually help the organization to function better. A clear ending date can incentivize strategic reevaluation and reorientation, leading to greater impact.

ILLUSTRATIONS BY DAVID PLUNKERT

MORTAL AFTER ALL

Historically, foundations have embraced the idea of perpetuity—the organization aims to continue the founder's legacy long after their passing. But our research reveals a totally different reality on the ground: Based on our own data from Switzerland, for instance, the average life span of a foundation is around 20 years. The majority of foundations in Switzerland have been established within the last 30 years, in a period of increasing private wealth. Similar numbers of establishments apply to the foundation sector in Germany, the United Kingdom, and the United States. Contrary to the cliché of foundations being eternal and unchanging organizations, the sector proves to be dynamic and subject to constant change. The only question is whether this change is deliberate and planned, or coincidental.

Although many foundations barely reach a life span comparable to that of humans, many foundation boards think of their organizations as immortal. This attitude contributes to the popular criticism that foundations are stagnant, work at a glacial pace, and lack social impact. If a foundation lives forever but fails to create social impact in a given year, it can always do so the next year, or the next decade, or the decade after that. Even worse, if a foundation skims off all returns and maintains only the nominal amount of the endowment, it depreciates value over time. Ultimately, the foundation may become too small to fulfill its original purpose and face liquidation. Since the 2007-08 global financial crisis, which led to low or even negative interest rates, the number of foundation liquidations in Switzerland has quadrupled.

Under a sunset clause, the board is required to spend down the endowment by a predetermined date—often already set at the time of the establishment. The One Foundation in Ireland set it for 10 years, the MAVA Foundation in Switzerland for 30 years. Other foundations convert from perpetuity to sunset and increase the level of their payout so that the capital is consumed within a shorter period of time. The Gebert Rüf Foundation in Switzerland is currently reaching its final years, after making the decision to sunset in 2012 by increasing its annual payout by 50 percent. As the final date draws near, board members and leaders are faced with the questions of how to create a meaningful end.

Using multiple case studies on sunset foundations in Ireland, Switzerland, the United Kingdom, and the United States, we identified different strategies for foundations to sunset smoothly and successfully. We talked to the foundation representatives and identified different triggers that led to the decision to sunset the foundation. The most common internal triggers are a pledge by the founder or a conscious decision by the board to sunset. External triggers can include bad economic circumstances, such as the 2007-09 Great Recession, or urgent social needs, such as those triggered by COVID-19, that demand a higher payout.

Further, a foundation can ground its sunset strategy in either a resource-based view or a needs assessment. The resource-based view starts with the remaining assets and strategizes about how they will be spent. A foundation with this perspective will first define a financial plan for the final years and then decide what impact is still achievable. The needs-assessment view, by contrast, aims to detect the most important demands of the beneficiaries and to offer as much support as possible with the remaining funds. As the detected needs might differ, the foundation will have to select the grantees with the best fit for social impact.

FINDING CLOSURE

The most relevant aspects of a meaningful closure include legacy, time frame, and management of stakeholders. A sunset is not sudden death; a foundation's influence lives on well after it ceases operations.

Being clear about the intended legacy is the cornerstone for any strategic decision about closure. One approach might nurture a philanthropic ecosystem in which the partners will be able to sustain the foundation's impact well beyond its sunset. Another approach for legacy may be even more tailored to the current needs of the partners.

In an economic recession, for instance, the foundation might support its partners with sufficient funds to survive the next two years so that they have enough to get through the hard times and find new support from other donors. A successful sunset carries the legacy of the foundation far beyond its existence through the partners it empowers. Helping partners build their capacity is critical for long-lasting influence. Building a legacy includes open communication from the beginning of the sunset phase until the fall of the curtain. The foundation's final impact review may serve as a blueprint for other philanthropic actors.

In many cases, partners will be frightened on first learning about the sunset—especially the ones that are financially dependent. Communicating early, transparently, and consistently about the sunset, therefore, is crucial. The planning of the sunset must include time for communications.

A typical time frame for a sunset is 5 to 10 years. The time frame, once set, determines which ongoing projects can be finished and which new projects can still be undertaken. It allows planning for the necessary human and nonhuman resources that will be required to operate smoothly during the final years. The time frame also has to include the foundation taking its assets out of any investments to have a definitive pool of capital to spend down. Foundations that decide to sunset in response to external urgencies, of course, have less time to plan. Nonetheless, making the necessary managerial, financial, and legal decisions early is essential for a sound sunset.

The decision to sunset affects many different stakeholders, foremost the funding receiving partners and the foundation's staff. While partners might want to maintain the relationship as long as possible, staff members will have a tendency to leave early and search for new job opportunities. However, the foundation will need someone to close the doors. Without its staff, a foundation will run out of business even before the sunset. Thus, the leaders have to pay special attention to the well-being of staff members and offer flexible solutions for their future careers. This preparation for transitions may include coaching, job training, and flexible working hours. Staff members might move on to a new position part-time while finishing the remaining work. In the final years, the foundation needs staff with specific qualifications. Many sunset foundations experience an increased need for human resources to manage the additional workload during the final phase.

For partners, losing the foundation as a donor may present an existential threat. Hence, the foundation needs to evaluate the situation of each of them separately and carefully. Continuing to invest limited resources in a particular partner organization may not make sense, but cutting support too early may lead to its dissolution. Difficult decisions must be made. Not all partners will be well suited to the chosen sunset strategy, and so the foundation may want to engage new partners for the final years.

In the final phase of the closure, a foundation may want to engage partners not only as grantees, but also as allies in the communication about the sunset and the foundation's envisioned legacy. This will increase awareness and create a leverage effect for social impact long after the foundation has closed its doors forever.

Planning a sunset is ultimately a phase of strategic reorientation and new momentum to amplify the foundation's impact during its final years. Sunsetting foundations increases the flow of philanthropic capital from the foundation sector back into society to address the pressing social and environmental issues of our times. The value of perpetuity rests not in the foundation itself, but in its legacy and the social impact it generates.

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ALICE HENGEVOSS is head of applied research at the Center for Philanthropy Studies at the University of Basel, Switzerland.

GEORG VON SCHNURBEIN is full professor and founding director of the Center for Philanthropy Studies at the University of Basel, Switzerland.