CHAPTER V

TRAINING *the* NEXT GENERATION

By Lester A. Picker

Preparing the next generation of board members to assume the full range of financial management responsibilities is one of the most difficult challenges faced by family foundations. Educational programs—both formal and informal—are essential to that process. This chapter explores methods for developing such programs, the content for such programs and effective teaching methods, beginning with ways to involve young children and concluding with formal programs for adult board members.

"The only rational way of educating is to be an example."

— Albert Einstein (in Mein Weltbild, 1934)

HOW TO COMMUNICATE FINANCIAL STEWARDSHIP issues to succeeding generations effectively is one of the most critical issues in family philanthropy. Family foundations often offer an extraordinary opportunity for individual family members to develop financial management and investment skills if a thoughtful approach is taken to providing educational opportunities in this area.

For many family foundations, the financial corpus is the result of the founder's business acumen. In its early years, the foundation is usually well served by the donor's business and management skills. Assets generally grow as he or she continues to give gifts and oversee investments.

While the original donor is alive and heading the foundation, financial stewardship is usually not an issue. When second- or third-generation family members become active board members or directors, however, the foundation may face new challenges. No matter how skilled or talented new board members are in other areas, whether they are younger family members or trusted non-family friends or business associates, they may lack the financial management knowledge and skills required to actively or passively manage foundation assets. Moreover, although motivated, skilled, and eager to serve on the grantmaking side of the ledger, they may not have all the knowledge and skills needed for budgeting, controlling expenses, and investing to protect and grow the foundation corpus.

Ensuring that new members have the skills required to meet the fiduciary responsibilities of a family foundation is a concern shared by the many mature family foundations that add next generation members to their boards each year. "I think the

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most important aspect of foundation management is to ensure that the money is there and that it is invested wisely so the foundation can continue in perpetuity," says Cynthia Lesher, chair of the Dean & Margaret Lesher Foundation in Contra Costa County, California.

Despite the wide disparity in interest and abilities in the financial area to effectively carry out their fiduciary responsibilities, the next generation must understand the intricate connection between the investing and grantmaking sides of the philanthropic equation. This includes understanding the wide array of investment options available to the foundation, even if their only role in investing is to oversee the work of professional money managers. (For a discussion of this very common arrangement, see Chapter VIII, "Selecting and Working with Investment Advisors.") Of course, some next generation board members come to the foundation board with business degrees, financial skills, and the financial experience needed to assume their fiduciary responsibilities, with no additional education. Still, a foundation that is bringing next generation members on to its board needs a carefully planned, well-executed strategy to develop the degree of financial savvy in all of its members required to manage the foundation's finances in today's complex financial landscape.

Starting Early

Part of the challenge of preparing members of the next generation for their philanthropic role is knowing when to begin discussing financial issues. Most experts believe that it is important to ease children into family foundation affairs, starting the process as early as both parents and children are comfortable— in some cases as early as the mid-to-late teen years.

"Start talking to your children about your giving philosophy," advises Ford Bell, head of the James Ford Bell Foundation in Minneapolis. "Tell them what motivates your giving. Keep them informed about the family foundation, what it does, what your plans are for it, and how they might someday be involved. And then, get them involved at some level, even if they come in as observers."

One of the most effective means of involving children is to show them concrete examples of positive impacts of the foundation's work in the communities it serves. Onsite visits, reports from beneficiary organizations, and case histories are excellent starting points for illustrating the importance of charitable activities, inculcating a sense of community responsibility, and instilling pride in the family's work. Involving children on site visits and other grantmaking activities provides rich teachable moments that link the foundation's accomplishments directly to the financial requirements and skills needed to achieve those accomplishments. They offer an opportunity to discuss how critical growing the foundation financial corpus is to achieving desired results.

Discussions of foundation accomplishments should include basic, age-appropriate concepts in investing. "It takes a certain amount of education, training, and life experience to really appreciate the issues," says George McCormick, a third-generation board member of the Charles T. Beaird Foundation in Shreveport, Louisiana. "As far as being exposed to the finances of a family foundation, I don't think it's ever too early. It's more a case of when they show an interest."

MAKING A COMMITMENT TO EDUCATING

Whether seizing upon a teachable moment in childhood, or developing a formal plan for adult members of the next generation, every effective transition in financial management begins with a commitment to education, training, and retraining, as needed.

Ideally, planning a program to educate the next generation about financial management begins with input from obvious sources: existing board members, staff, and trusted advisors. Providing the next generation with the tools needed to take ownership of, and to become engaged and proficient in, the philanthropy process requires substantive input from individuals in that generation concerning what they believe they should learn and the skills they feel they must acquire. The Rockefeller Family Office offers a case in point. This organization provides advice and assistance to wealthy families to help them achieve their philanthropic goals. When staff was charged with developing an educational program to bring the fifth generation of Rockefellers into formal philanthropy, they met with members of that generation individually, surveyed them by mail, and conducted a formal needs assessment. In doing so, they effectively asked the fifth generation what they felt was needed to become effective philanthropists. Once the needs assessment was completed, staff brought a group from the fifth generation together to work collaboratively on their philanthropy skills. A part of that training involved the enhancement of financial skills through management of a small fund that was established for training these individuals.

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A family foundation need not be as large or carry the name recognition of the Rockefellers to create an effective financial stewardship program. Educating the next generation to take over the financial reins is a continuing process of assessing their needs and developing educational programs that help the foundation achieve its financial goals.

The Lesher Foundation, for example, has assets of $42 million and a small staff. The recent death of its founders prompted the board to review all aspects of its philanthropic mission, including financial management. "We needed to do some work with the younger generation taking ownership of the foundation," says Executive Director Kathleen Odne. "We took this as a time to educate all generations on the board."

To handle the wide disparities in knowledge about finances and investments among trustees, the foundation's money managers were asked to make presentations

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that every member of the six-person board could understand and participate in fully, twice each year. Steve Lesher, the first third-generation member to join the board, finds these sessions valuable: "I think the greatest gap in financial knowledge among the trustees is in our historical perspective. Every member of the board except for me has been an adult during a major market correction. It's amazing that my generation considers the stock market to be a safe place to invest. I've now been educated to know that some money should be in stocks, but that's only one place to invest."

Most family board members, consultants, and professional staff believe that a thorough understanding of asset management enhances the overall grantmaking skills of the next generation family members and that, if the foundation expects to exist in perpetuity, a deep commitment to protecting and growing those assets is essential. The real questions are—what should be taught? And, what is the best way to teach these critical, yet complex, financial stewardship issues?

TEACHING THE BASICS

Embracing the idea of a formal financial stewardship education program is one matter. Determining what information and skills to impart—and through what means—is another. Family foundations employ a variety of means to bring next generations on to their boards. Ultimately, however, because of commonly accepted notions of fiduciary responsibilities and what constitutes the prudent investor, the concepts, practices, and procedures that all board members must learn about financial management are defined fairly tightly.

"I believe the younger generation doesn't need any special qualifications, other than a desire to serve on the investment committee," says Dr. Charles Beaird, founder and president of the Charles T. Beaird Foundation (1998 assets: $5 million). "We simply take the most interested member of our eight-person board and make him chair of the committee." This informal approach to financial education works well for many family foundations.

In the case of the Beaird Foundation, that "most interested" person is third-generation member George McCormick, who has chaired the investment committee for the past year after serving for one year as a board member. With an undergraduate degree in economics and a graduate degree in finance, McCormick gravitated toward the foundation's financial leadership position, a common occurrence when a member of the next generation has special training in finance.

"The best training comes on the job," McCormick says emphatically. "Until you challenge the next generation to think about financial issues, as opposed to being given the answers, they aren't going to learn."

This "baptism by fire" approach is echoed by the Lesher Foundation, where their six-person board serves as a committee-of-the-whole on all foundation issues. Still, in addition to this on-the-job training the Lesher Foundation encourages board members to attend workshops sponsored by professional associations and other groups (see next page), a practice also followed by the Beaird Foundation.

In addition to their annual presentations to the board, the Lesher Foundation uses its money managers to bridge the knowledge gap between experienced board members and the next generation. "We spent a day with one of our money managers going through concepts concerning stocks and bonds and other investments—sort of a Basic Investment 101 that was really helpful," reports Board Chair Cynthia Lesher.

The Lesher Foundation also hires an investment counselor, paid on a fee basis, to monitor the performance of the money managers. "Because we attend the meeting where he reviews the portfolio with each of these managers, we all learn from him," adds Cynthia Lesher.

Sponsors of Professional Networking Meetings

The organizations listed below sponsor conferences, workshops, and individual sessions around investment issues for individuals, families, and foundations. Please contact the organization directly for specific information on their professional development opportunities for trustees and family members, or contact the National Center for a list of meetings around the country.

- *Institute for Private Investors.* This private membership organization is a networking, research, and educational resource for individuals with substantial assets ($5 million +) and their advisors. Membership consists of 188 families and 152 advisory organizations. (74 Trinity Place, New York, NY; Phone: 212.693.1300; Fax: 212.693.2797; Website: http://www.rutgers.edu/Accounting/raw/memberlink/)
- *Family Learning Center (Family Office Exchange Inc.).* This organization functions as a comprehensive resource for family offices, advising both family members and the professionals who are responsible for managing their wealth. (137 North Oak Park, Suite 310, Oak Park, Illinois 60301; Phone: 708.848.2030; Fax: 708.848.2131; Website: www.familyoffice.com.)
- *Center for Fiduciary Studies.* This newly established center, affiliated with the University of Pittsburgh, will provide research and training opportunities for investment fiduciaries. (4041 Bigelow Blvd., Penthouse Suite, Pittsburgh, PA 15213-1230; Phone: 412.687.4120; Fax: 412.687.4126)
- *Council on Foundations.* This organization has been helping foundation staff, trustees, and board members with day-to-day activities for more than 50 years. It offers one-to-one technical assistance, research, publications, conferences and workshops, legal services, and a wide array of other services for family foundations. (1828 L St., N.W., Washington, DC 20036; Phone 202.466.6512; Fax: 202.785.3926; Website: www.cof.org.)
- *Family Firm Institute.* This international professional organization is dedicated to assisting family firms by increasing the interdisciplinary skills and knowledge of family business advisors, educators, researchers, and consultants. It provides continuing education and networking opportunities as well as programs designed to stimulate research in the field of family business. Members include lawyers, therapists, accountants, insurance profes-

sionals, sociologists, educators, and other specialists who advise or work in family businesses. (221 North Beacon Street, Boston, MA 02135.1943; Phone: 617.789.4200; Fax: 617.789.4220; Website: www.ffi.org.)

- *The Funding Exchange.* Composed of 15 foundations, and a network of hundreds of community activists, donors, and supporters, this organization raises and distributes money for social change. (666 Broadway, Suite 500, New York, NY 10012; Tel: 212.529.5300; Fax: 212.982.9272; Website: www.fex.org.)
- *Regional Associations of Grantmakers.* RAGs exist to enhance the effectiveness of private philanthropy in distinct geographic regions (city, state, or multi-state areas). They respond to the specific needs and interest of their members. In addition to holding annual conferences and various educational programs, many RAGs support peer networking groups for trustees and staff of family philanthropies. Full contact information can be obtained from the National Center or the Forum of RAGs (1828 L Street, NW, Suite 300, Washington, DC 20036; Tel: 202.467.0472; Fax: 202.835.2972).

Establishing a Formal Education Program

Established by the founder of General Mills Corporation, the James Ford Bell Foundation (1998 assets: $21 million) provides a good example of a more formal approach to educating the next generation about their responsibilities, both to the foundation and to the many nonprofit boards on which foundation board members may serve.

The foundation's board charged Executive Director Diane Neimann with developing a curriculum for the Next Generation Board, established as a means for bringing next generation family members along. The curriculum involves preliminary readings and two sessions of two-and-one-half days each. It brings small groups of young family members—ranging in age from 17 to 27—together from widely dispersed locations—ranging from Maine to California. (A nine-month hiatus between the two sessions allows participants to reflect on what they've learned and to prepare for the second session.)

Part of this training involves lectures and discussions on financial issues and investing, with heavy use of graphics and charts on investing to explain more clearly how different asset classes perform over time. These techniques help prepare the Next Generation Board, many of whom are not well versed in financial management, to oversee their own small fund.

"When it comes to investing, the gap in knowledge between generations is large," reports Next Generation Board Chair Sallie Bell. "Although we have financial advisors, I believe that it is important for us to know these things as well, to understand the whole dynamic, so that we can oversee our advisors."

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A Sampling of Teaching Methods

Family foundations employ a wide variety of methods to teach next generation members about financial stewardship. Common practices—both informal and more structured—include:

- Placing next generation trustees on the investment committee with more experienced board members/advisors;
- Sending future trustees to professional conferences, seminars, and workshops;
- Spending a day with foundation money managers at their offices;
- Requiring money managers to conduct a two- to four-hour instructional seminar for new/future board members;
- Making occasional educational seminars part of the investment counselor's job description;
- Incorporating one learning segment at every board meeting;
- Developing a formal orientation training program of from one to three days for next generation members (a significant portion of which covers financial management); and
- Establishing a separate "Next Generation" advisory board structure, that includes a small fund to manage and a requirement that the advisory board report on their activities at every full board meeting.

Teaching the ABCs of Financial Education

Although the type of training family foundations provide to next generation members varies, the content is typically narrowly defined by tax and legal systems and by market forces. Educational opportunities tend to focus on Internal Revenue Service requirements such as payout and prudent investor guidelines rather than the larger issues involved in wise investing.

"The most important concepts in which next generation members must be conversant are diversification; responsible spending; payout rules; allocating and investing assets to maintain the foundation; investing options for growing the corpus or sunsetting the foundation; historical investment performance; and the relative risks of investment option," advises Ellen George, a Certified Financial Planner from Minnesota who provided financial training to the James Ford Bell Foundation.

Although the Beaird Foundation's George McCormick agrees, he also believes that it is "extremely important to have a grounding in the capital markets, such that you can be comfortable with the risk-reward tradeoffs that you make in the portfolio. Without that grounding, all you know is what the investment professionals tell you."

Some of that knowledge will come through formal schooling, says Cynthia Lesher. "Next generation board members will learn some skills by working with their trust fund managers on their personal trusts. Still, I want my children to take courses in economics, investments, and financial management when they are in college."

If the portfolio will be handed to professionals to manage, next generation board members must be taught how to interview financial managers, select services, and monitor and evaluate their performance. (See Chapter VIII, "Selecting and Working with Investment Advisors.")

"Financial concepts must be well understood on a broad-brush basis," regardless of whether managers are used, says McCormick. "What strategies do you lay out at the start and what do you want out of those strategies? Even with a passive investment style, board members must oversee the performance of their portfolio managers."

Socially responsible investing is another area of financial management that is increasingly appearing on the radar screens of family foundations as next generation members come on board. "The most animated investment discussions at recent board meetings have involved socially responsible investing," reports Lani Shaw, executive director with The General Service Foundation in Aspen, Colorado (1999 Assets: $67 million). "The concept of socially responsible investing brings up difficult issues and raises the level of discussion for the family." For many family foundations, the question pits the desire for maximum returns to do the most good for the community against perceptions that some investments may violate core family values. "We have debated whether we should be making a statement from our investments as well as our grantmaking," Shaw adds.

"The question is whether we should have tobacco or alcohol companies in our portfolios," notes Charles Beaird. "We've talked about it, read about it, and discussed it with our advisors and we've determined that it would be expensive in the sense that it would cost us 80 to100 basis points in income to use only managers who were safe on these issues"—a contention contested by other family foundations, who may have different asset allocations. "At this point, the grandchildren are buying that argument, but I think we will probably revisit the issue at some point," adds Beaird.

Beaird's grandson, George McCormick, agrees. "There's a continuum of values represented in our foundation. The donor generation tends to be more conservative in terms of investments. In fact, part of the family is very concerned about socially responsible investing, so I know we'll be discussing the issue again." (See Chapter IX, "Thinking About Mission Related Investing," for a full discussion of this topic.)

What Should Be Taught?

In developing a financial management education program for the next generation, family foundation board members, staff, and consultants suggest that the following areas be covered:

- How to decide on and develop broad investment goals;
- How to develop detailed investment strategies to achieve investment goals;
- The risks and rewards of capital markets;
- The long-term (10+ years) and short-term (1-, 3-, 5- and 10-year) performance of various investment vehicles;
- Asset allocation and the importance of diversification;
- Prudent investor guidelines;
- Payout rules;

- Active versus passive asset management;
- What to look for in a portfolio manager;
- What to look for in an investment counselor;
- How to interview and select financial managers;
- How to monitor investment performance;
- How to budget for and control foundation expenses;
- How to evaluate grantseekers (due diligence);
- How to reflect family foundation values in investment goals, strategies, and individual investments; and
- When and how to become involved in socially responsible investing.

Summing Up

When it comes to financial leadership, it is always tempting for older, more experienced board members to assume they know what the younger generation must learn to do their jobs effectively. When designing a formal training program for the next generation, however, it may be better to start by asking what they themselves perceive is needed. By understanding and meeting their training needs, the next generation will feel respected and valued, and will likely participate more eagerly. Lani Shaw reports that the General Services Foundation recently mailed a survey to each of its next generation family members to find out what aspects of the foundation they wanted to learn more about.

Polling the next generation also gives the board a better understanding of the strengths they will bring to the table. Trustees of the James Ford Bell Foundation, for example, were struck by how well the younger generation worked collaboratively in teams. Because several of the next generation had received training on their personal finances, it was important not to re-teach what they already knew. Instead, they were able to share that knowledge with other team members.

Good financial stewardship also means providing next generation board members with the tools for grantmaking and for evaluating the effectiveness of their grants. Diane Neimann of the James Ford Bell Foundation says, "When they see a request, they must be able to ask the right questions and to exercise their due diligence. Does the grantseeker have a good board? Is their balance sheet okay? How can we leverage our involvement?"

Interestingly, the skills needed to evaluate the financial strength of a grantee are nearly identical to those needed to keep and maintain the strength of the family foundation. It is those skills that help board members govern more effectively on both sides of the giving equation.

"A lot of people look for a foundation's grant money," adds Steve Lesher. "Part of the money management tree is having a sense of where you can get the most bang for your buck and where in the community you can best invest your money."

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