



Family Foundations: High Risk, High Reward

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"Foundations are a remarkable human invention. They provide private persons a free-wheeling opportunity to be socially and publicly influential. Without having to meet the tests either of the market or the ballot box, private persons can independently determine what the needs of society are and how best to go about meeting them."

A (married-into) member of a sizable family foundation recently commented somewhat sardonically, somewhat ruefully, "Building a foundation on the fragile relationships that characterize any family is a precarious enterprise, but the returns are worth the risk and all the tensions that go with it."

What are the attractions, what are the risks, what are the payoffs? Are the ecstasies of success worth the sometimes agonies of the effort?

The attractions: foundations are a remarkable human invention. They provide private persons a free-wheeling opportunity to be socially and publicly influential. Without having to meet the tests either of the market or the ballot box, private persons can independently determine what the needs of society are and how best to go about meeting them. The range of choice is almost infinite: health, education, science, human services; the cause of women, children, minorities, the poor, both at home and abroad; all the arts, community betterment, technological advance, immediate

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amelioration or fundamental and long-range reform—indeed everything but direct engagement in politics, and even that arena can be touched through research, education, and advocacy.

Over long years of evolution, foundations have emerged from their origin in charity to being globally recognized as an essential social institution. Modern societies have grown incredibly complex, no longer susceptible to simple ideologies, centralized governance, or single outlets for human energy and creativity. A pluralistic network of for-profit, nonprofit, and public agencies, sometimes working cohesively and sometimes competitively, is required to sustain the accumulating weight of human needs and potential. [It is] no accident that as American society has become more complex, the role of foundations has become more essential and appreciated. No accident, either, that foundations are spontaneously and dramatically emerging around the globe, even in the formerly rigid societies of Japan, the Soviet Union, and eastern Europe.

Private wealth has always been influential. But when it is transformed into a foundation, it takes on another image and coloration, no longer simply the expression of personal whim and ego but the credibility of a considered evaluation of community welfare that is the expectation—if not always the record—of modern philanthropy.

If the institution of private philanthropy is a remarkable social invention, its availability to families is equally remarkable. Society has offered families what is in effect a permit to engage independently in matters otherwise thought to be the public's business. Philanthropy becomes a legitimate and ennobling process, elevating the accident of kinship into the loftier realm of civic participation and responsibility. The often narrowing confines of individual giving open into the broadening vistas of social concern.

The risks, the hazards: succeeding in a family business or succeeding into a family fortune does not transpose easily into successfully operating a family foundation. Family businesses and fortunes are usually disciplined by the bottom line and hierarchical, often patriarchal, management; family fortunes sooner or later become divided or inherited into individualized control.

Foundations, with a single corpus and collective decision-making, are quite another proposition. They not only invite an intensifying

stress on tensions already evident among family members, but intrude yet another dimension of differences—those that arise from the subjectivity inherent in determining social needs and priorities. There are few if any certain guidelines in deciding which social needs to focus on, which instrumentalities to work through, which criteria to adopt for judging success.

In that murky environment, family tensions can flare up and consume, existing differences exaggerate into factions and sometimes feuds. Governance can become an anguishing issue: in the first generation, how to overcome the tendency to bow obsequiously to the founding donor; in subsequent generations, how to include a spreading avalanche of family members without being exclusive or overwhelmed.

Distinguishing personal from social priorities is yet another hazard. To what extent should family obligations be expressed in foundation giving—obligations either imposed by the legal or felt need to honor the founder's charitable interests, or intruded by individual family wishes to give to favored charities? [This is] complicated often by the presence of surviving advisers to the original donor with dominating memories of what the founder wanted. What has to be remembered throughout and above all is the public purpose [that] the foundation is obliged to honor, the governing phase in society's permit to transform private wealth into a tax-favored and socially credible institution. The price is a commitment to go beyond personal whim and advantage to an equitable and serious consideration of social need.

That is the acquired ethic of a family member turned foundation trustee.

At the nuts-and-bolts level, there are obviously other risks, hazards, and difficulties. Forming a private foundation is no longer something that can be done by amateurs. Government regulations have increased along with public recognition; sophisticated legal, managerial, and financial advice is essential. There are regulatory no-no's contained in both federal and state legislation, some that carry civil and even criminal sanctions. Professional ethics and standards have also elaborated, subtly insinuating themselves into public expectations of philanthropic performance. And while smaller family foundations can often operate with ingenuity and effective-

ness, increasing size carries with it the necessity of adding competent staff and advice. Not least [is] the inevitability of becoming sensitive to the growing attention [that] the public is giving to the role of foundations and to their performance. The day of sequestered philanthropy, of foundations acting quietly and non-responsively in the shadows, is waning, if not already over.

The rewards: the returns on a family investment in philanthropy are—or can be—extremely high, both internally and externally. Well executed, a family [foundation] can achieve the cohesion that comes with a sense of higher purpose and cooperative effort. Family members report an excitement and fulfillment going far beyond what they had known simply being blooded (often bloodied) members of a tribe. The educational experience involved in assessing public needs and evaluating grant proposals is incomparable, and can be extraordinarily bonding.

Externally, the rewards are also considerable. Society honors those who practice philanthropy, and the families who have kept the faith and held together have achieved public standing almost as an aristocracy: the Rockefellers, the Babcocks, the Nords, the Woods, the Gunds, the Heinzes, are simply suggestive of the potential for distinction that family foundations have bestowed. And in an age of family disintegration and lack of social role models, the potential for public appreciation is incalculable.

What Makes For An Effective Family Foundation?

There are a plethora of ways in which an effective family foundation gets started. One is by a founding donor with an infectious sense of social commitment, in turn transmitted through his/her family and successive generations. Others can vary from the opposite extreme of a fortune left by someone of minimal interest in philanthropy, but whose progeny and/or trusted advisors somehow ignite the spark and passion of social conscience. Sooner or later what binds these disparate examples together is an accumulating tradition of serving a worthy cause, along with some other common elements.

One is the willingness to argue through to agreement an explicit set of goals and objectives for the foundation: both a mission

statement and a more focused bill of particulars that can guide applicants, staff, and trustees. This may be made moot by the trust's specification of purpose; but even when the charter is restrictive rather than general, enough room for argument exists to make the process of consensus-building essential.

Another, perhaps more arguable, ingredient has to do with professional staff. Many a successful family foundation, usually the smaller, has managed without such help, relying entirely on trustees and/or the designation of a family member to handle the day-to-day necessities of grantmaking. (One Massachusetts trust has successfully challenged this rule by relying solely on trustees to administer an endowment of over fifty million dollars.) Professional staffing does involve some almost inevitable delicacies and sensitivities, centering on board-staff relations and the eternal questions of how much power to delegate and whose money it really is. But certainly as size and scale increase, the need for professional staff becomes more essential and insistent, requiring a search for persons who combine competence with family sensitivity and compatibility—which has not prevented some foundations from finding persons with that potential within the family itself.

Not as arguable is the need for family trustees to be willing to work hard at the job. Giving away money—as many a donor has found—is not easy; doing it intelligently requires long hours of sifting priorities, sorting through proposals, learning to know the fields in which the foundation has expressed interest, getting to know the applicants and their circumstance, sensing who has the talent and which projects hold promise. The due diligence that is exacted from corporate boards has an even more exacting analogue in the obligations of foundation trustees.

This makes the selection of trustees extremely crucial. Within the family, selection can be as delicate as it is crucial. Boards are very rarely large enough to include every potentially eligible offspring; winnowing that longer list implies exclusion. And when exclusion is based on the mercurial criteria of competence and commitment, choices can be explosive. Families have tried to deal with the problem in many ways: from arbitrary fiat, to rotation, to determination of interest, to careful training and mentoring of younger family and oncoming generations. The more effective foundations have

taken the selection process seriously, using rotation to spread participation and providing ample opportunities for learning the art and obligations of successful grantmaking.

An often divisive question is whether a family foundation would be well advised to invite the participation of nonfamily trustees. There are weighty arguments and examples on both sides, but the inclusion of outsiders has much to recommend it. Internal family dissension tends to soften and disappear in the presence of respected “guests at the dinner table”; the level of discussion and debate is elevated, especially with the participation of credible outsiders with experience in philanthropy and knowledge of the subjects being attended to. Numbers are not as important as simple presence; the catalytic effect of nonfamily trustees is the essential value.

A final question is whether an effective family foundation is forever. Not all foundations have survived through later generations, or even the first; some have been dissolved; some have broken into separate philanthropies, each presided over by conflicted family members; others have seen the influence—even the presence—of family disappear over time in favor of nonfamily appointments. It has even and provocatively been argued that family foundations should be subject to a sunset requirement, converting at some point into a more public institution, with or without retaining the family name.

But there is something distinctive and precious about family foundations that suggests they should remain as they are: a unique opportunity for families to make and leave their mark on the society around them, to share with others the fortune they have enjoyed and the creative energies they so often possess.