

Choosing and Preparing your Grantmaking Successors

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PASSAGES

EXPLORING KEY ISSUES IN FAMILY GIVING

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There is some truth to the cliché – “When you’ve seen one family foundation, you’ve seen one family foundation.” We are all unique as individuals and as individual families. Even with such individuality, there are many common goals, ideas and approaches that can be shared to help charitable families achieve the goal of becoming successful family philanthropies.

Although tax advantages and giving efficiencies are incentives to establish a foundation, most donors say they formed their family foundation for two basic reasons. The first is to provide a vehicle that encourages the family to work together to make a better world and, second, to perpetuate a philanthropic family legacy through the generations. Our parents taught us to do the right thing and set a good example. By demonstrating values of giving and volunteerism, we set a good example for our children. However, when it comes to formal family philanthropy, our children may need an invitation and further preparation to participate in the foundation.

Family foundation donors and first generation boards should begin the

continuity and succession discussion early in the foundation’s lifetime if perpetuity is the objective. In a succession plan, one trustee usually succeeds another. However, before succession can take place there should be continuity of governance where members of more than one generation are working together as peers. Whether the succession question is how to add the second generation to a board that is currently composed only of the donor(s) or how to involve multiple generations and branches, a plan for continuity and succession is essential.

This *Passages* profiles the succession planning experience of the Howard and Geraldine Polinger Family Foundation and the challenges faced when the foundation sought to add third generation family members to its Board of Directors.



LEGACY AND SUCCESSION

The first step in a succession process is developing a donor legacy statement to express the philanthropic core of the foundation's existence. While continuity and succession may require some adaptation, the legacy statement serves to guide successive generations. The board should consider whether there is anything about the foundation that they would like to preserve in perpetuity. Likewise, if there are areas where the donors wish to encourage flexibility and creativity, this preference can be stated.

We began working with the first and second generation board of the Howard and Geraldine Polinger Family Foundation of Washington, D.C. in 2005. The board, composed of Howard, Gerry and their four adult children, was enthusiastic about encouraging third generation involvement, but had some work to do before the succession process could begin. Howard and Gerry Polinger worked diligently and thoughtfully with their children to develop a donor legacy statement that shared their philosophy of philanthropy with their descendants. The statement made clear the couple's goals and the areas in which they encouraged flexibility in future Foundation activities.

The process of developing the legacy statement led the donors to conclude that there were certain philanthropic goals they wanted to perpetuate, specifically, that a portion of the foundation's funds be dedicated to Jewish giving and to the geographic area in which the family business was located and the donors made their home. While these preferences were clearly evident in the Foundation's mission and values, the trustees did not want the Foundation to continue in perpetuity if these aspects of their donor legacy were not fulfilled. After several discussions among board members over a period of two years, the board determined that specific requirements regarding these items would be written into the Foundation's articles of incorporation and by-laws. Consideration was given to using broad language, so as not to unreasonably bind successors.

As the trustees reviewed donor legacy they also began to reconsider other aspects of the Foundation, leading to a revised mission statement and grantmaking priorities. Thus the succession process involved more than simply choosing successors. It evolved into thinking about how the Foundation would best succeed as a family philanthropic legacy while fulfilling its commitment to the community.

DEVELOPMENT OF A PROCESS

Initially, the Polinger trustees attempted to implement a succession plan by setting aside a certain sum from the grantmaking budget for the next generation to allocate. The intention was that the third generation would discuss and agree on funding one project. However, the approach was unsuccessful. As the trustees learned, the next generation did not have enough familiarity with giving or with working in a structured process with one another to be able to develop consensus. When the trustees began to rethink their approach to succession planning with the assistance of a consultant, the nine third generation members ranged in age from 15 to 30 and represented four family branches, three from one branch and two from each of the other three branches.

Unlike the process of second generation succession, transition to the third generation introduces complexities. Implementing a second generation succession plan is often fairly straightforward. The second generation may have only two to four members. There are the typical issues of whether or not spouses will be considered for board membership, and what to do about family dynamics in the board room.

Howard and Gerry Polinger added all four of their children to the board in 1999. However, beginning with third generation succession, the questions become more challenging as families become larger and more widely dispersed geographically and in lifestyles and points of view. It may become more difficult to include all members of the family without having a very large board and to consider all viewpoints without having very lengthy board meetings.

Individuals who all grow up in the same household—brothers, sisters, and step-siblings—have common experiences; they grew up in the same “country” of their family. But cousins have fewer common experiences and some cousins and second-cousins are sometimes more like strangers. The cousin generation may have fewer family dynamics issues than the sibling generation, but they may also have less in common. For the Polinger Family Foundation, the nine third generation members lived in several different states and abroad. They represented different age groups, ranging from teens and young adults to married adults with children and held a broad spectrum of political and ideological perspectives. Few of them knew much about the Foundation. How would the board choose and prepare its successors?

RESEARCH ON PEERS

A study of thirty family foundations commissioned by the National Center for Family Philanthropy and presented in the best-selling book, *Generations of Giving, Leadership and Continuity in Family Foundations*, reports that some family foundations tend toward inclusiveness and others are more selective when developing their governing board and succession plan. Foundations that are very inclusive may encourage direct descendants along with non-linear descendants, such as spouses, of all ages and backgrounds to become involved with the foundation board. Other foundations are more restrictive in whom they identify as eligible board members. Some families look outside the family for board members in order to include a broader range of viewpoints, experiences and skills on the board. In practice, it appears that highly inclusive family foundations tend to operate less efficiently than their highly selective peers although perhaps other tradeoffs need to be considered.

One approach is not necessarily better than another. According to the book’s authors, “In moderation either style can lead to continuity.” In considering succession, families should be encouraged to review the potential rewards and

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For example, if the board desires a highly inclusive process, it will need to determine whether to expand the size of the board, or to have board terms in order to give everyone an opportunity to serve. The Virginia Wellington Cabot Foundation in Boston has a succession plan that requires three-year board terms with a one-year stand-down. Each of the five branches chooses two members to serve as trustees, and trustees rotate regularly. The process is highly inclusive, but making decisions about grants and other matters takes more time than it likely would if the board was smaller and its members remained the same year after year. New board members take time to become oriented to the governance and decision-making process and may lack the institutional knowledge of long-serving board members.

Some of the challenges faced by highly inclusive family foundations can include difficulty developing a common vision and strategic grantmaking program if the board is trying to fulfill the idiosyncratic funding interests of every board member, varying levels of competence and commitment among board members and higher administrative costs or volunteer time required for coordination. Rewards such as family unity and collaborative giving, which are enjoyed by the Virginia Wellington Cabot

board, outweigh these challenges for many families. On the other hand, the highly selective family foundation may benefit from efficient operation and the potential for high performance if all board members selected are specialists in the foundation's field or have non-profit experience. At the same time, the board will face the challenge of developing fair selection criteria and may alienate some family members who are not chosen for the board.

The Weyerhaeuser Family Foundation is an example of a family foundation that has successfully achieved board continuity and succession into its sixth generation. It employs a process, which can be described as "inclusively selective." The board has sixteen trustees: 10 branch representatives, plus 6 at-large positions. All family members over age 18 and their spouses are eligible and members self-nominate. Criteria for board membership are as simple as an interest in the foundation and willingness to do the work. Each year, the board proposes a slate of nominees for election by the family membership. Branch representatives can serve three consecutive three-year terms. At-large board members serve three-year terms and then rotate off.

Fortunately for the Polinger Family Foundation, its board members did not have concerns about equal branch representation or board size. They readily decided that they wanted to be inclusive, while realizing that in the future when the fourth generation came of age, they may need to modify their approach. The third generation members all have direct connections to the donors, their grandparents, while not all members of the fourth generation would have those connections. For the present, they determined that they would invite all third generation members who were interested and qualified to join the board. Regardless of which branch they represented, they were all part of the family and could contribute to the work of the Foundation. First, eligibility guidelines needed to be established and a succession plan developed.

A SUCCESSION PLAN

The process of developing the succession plan with the Polinger Family Foundation was highly interactive

and inclusive of the third generation, and took place over several years, beginning with the donor legacy discussion. Although the third generation could not find a time when all members could be together in one room, a facilitated program of interviews, surveys and conference calls led to a plan that was embraced by all. The trustees' goal was to develop a process that would provide incentives for next generation participation while establishing benchmarks that each next generation member would need to achieve in order to be considered for trusteeship.

Step One – Establishing the Rules

The Foundation's failed prior attempt to involve third generation members in developing and administering a joint giving fund had taught them that they needed to find a way to enable the third generation to accommodate divergent interests and viewpoints. They also wanted to establish a process that would be flexible due to the fifteen year age spread among the next generation members, leading to different levels of availability to participate in a giving program. Therefore, the trustees determined that the next generation members should better understand each other's ideas, learn to work together as a group, and become more informed about the foundation's mission and grantmaking interests, as well as the craft of grantmaking. A Third Generation Discretionary Grants Program was developed as a training opportunity. The Foundation set aside a discretionary grantmaking amount for each third generation member to allocate to a charity or charities of his or her choice, with official sign-off by the board. As an incentive to encourage collaborative discretionary giving among third generation members through this new fund, the foundation offered matching grants if two or more grandchildren pooled part or all of their discretionary allowances to make an award to the same organization. If members pooled their discretionary funds to make grants to organizations that fell within the foundation's mission, the match would be higher than the match for grants made outside the mission.

Step Two – Opening the Doors

The trustees would invite and encourage third generation members to participate in site visits and observe Foundation board meetings.

Step Three – Staying in Touch

The Foundation staff would develop an electronic newsletter to communicate to family members about the Foundation's activities, announce events and meetings that were related to the Foundation's work, present information on issues that guide the Foundation's grantmaking, and alert third generation members to educational and training programs in the field of family philanthropy and related areas.

Step Four – Formal Learning

The trustees would encourage and support attendance by third generation members at training and educational programs related to the Foundation's mission and to family philanthropy.

ELIGIBILITY GUIDELINES FOR BOARD APPOINTMENT

To be eligible for election to the board of the Polinger Family Foundation, third generation family members must be at least 22 years of age, and complete junior level involvement with the Foundation. Junior level involvement is defined as three years of participation in the Third Generation Discretionary grants program, plus a demonstrated interest in and commitment to the Foundation as well as some knowledge and experience in fields related to the Foundation's work. For example, interest in the Foundation's work could be demonstrated by participation in site visits or observing board meetings. Knowledge and experience could be gained by participating on a board committee, learning about the Foundation's investments, helping with web site development or the electronic newsletter, attending training sessions and informational meetings, or participating in on-line learning opportunities.

The trustees determined that once third generation members attended one board meeting, participated in one site visit, attended one educational or training program and actively participated in the Third Generation Discretionary program for three years, they would be eligible and likely to be appointed to the board, provided they presented themselves as interested and available.

THE THIRD GENERATION DISCRETIONARY PROGRAM

In order to support third generation members in developing and exercising their individual philanthropic interests, the trustees retained consultants to work with them as advisors and facilitators, instead of direct involvement by the "parental" generation. The role of the consultants was to encourage third generation members to explore their own charitable interests as well as learn about the interests of their cousins and siblings, to conduct research on organizations they were interested in recommending for funding, and to facilitate conference calls during which members could exchange ideas and seek collaborators.

Participation in conference calls and completion of a funding rationale for each grant award was mandatory in order to qualify for the discretionary program. Completion of the program's first year was followed by collecting feedback from the third generation members and a board discussion during which some of the program's features were revised. For example, the board decided that the next generation needed to demonstrate readiness to assume the responsibility of board membership by meeting deadlines of the discretionary program with little prompting from advisors.

The program recently began its fourth year and the feedback loop continues to function. A majority of third generation members have participated in each of the three years and most are planning to participate in the fourth year. Three members recently qualified and were elected as trustees at the Foundation's last meeting. The first board meeting involving three generations of the

family will happen later in the year. According to Lorre Polinger, President of the Foundation, “Our succession process was challenging and frustrating at times. Each time I thought that our Board was near completion of a succession plan, another issue would emerge, requiring Trustees to examine and re-examine the mission and governance of our Foundation. However, in the end, the experience was very rewarding.”

FEEDBACK AND ADAPTATION

The first and second generation Polinger trustees discovered that planning for continuity and succession raised many other issues and questions they had not anticipated. These began with donor legacy and mission interpretation and led to contemplation about how the Foundation would balance mission and legacy while integrating the viewpoints of next generation trustees. During the process the trustees were persistent and flexible, willing to hear the ideas of the next generation and respond to their feedback.

Two noteworthy areas of feedback were received from the Polinger Third Generation. First, the trustees were asked to state more clearly the Foundation’s mission, as the third generation felt that it was confusing both in terms of priorities and geographic interests. The trustees devoted time to discussing and refining the Foundation’s mission statement and allowed additional geographic flexibility in the discretionary program, as some third generation members were interested in international grantmaking. This engaged and respectful dialogue led to a creative evolution and improvement of the program, sometimes stretching the trustees beyond where they may have comfortably gone on their own.

Second, the third generation participants found the consultants’ memos were too long. Younger generations are wired to round the clock sources of information, ideas, and communication avenues. They are accustomed to receiving information in a concise and immediate manner. The consultants adopted a more concise writing style, and a social

networking site was set up where third generation members could find the information they needed, when they needed it, and could share information and ideas with each other. In this example, both trustees and consultants allowed the program guidelines and administrative process to be driven to a significant extent by the younger target audience.

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MISCONCEPTIONS

It will likely take time and perhaps as long as several years to develop the succession plan that is best for your family. One of the most common misconceptions is that succession is an event rather than a process. More than once we have been consulted by boards of family foundations, indicating that they were now ready to add the next generation. In one particular instance as we worked with a family we learned that the family staff was ready to talk about succession but the other board members were not entirely ready for the discussion. They had not talked with each other first about the process of continuity and succession and had not yet reached the preliminary comfort level necessary for a good initial discussion. The assumption was simply made that it was time for the younger generation to be involved.

As this foundation board began the succession discussion through a facilitated process, its members realized that they had very different ideas about the appropriate age for adding the next generation, ranging from starting as young as age 21 to

waiting until age 40. They faced questions of branch representation, with some members needing to acknowledge and accept the reality that their branches would not be represented in the future as they did not have children. They learned that some of the next generation members were interested in the foundation and others were not. They discovered that few of the next generation were familiar with the foundation's history and activities.

Perhaps the hardest realization of all for this evolving third generation family board was the knowledge that the next generation did not want a hand-me-down foundation. They wanted to put their own mark on the family foundation's philanthropy. If the current board wanted the fourth generation to participate, they would need to invite them as equal partners.

The board held several difficult discussions, as there was some reluctance among the third generation to invite members of the fourth as equal partners. After a series of facilitated interviews, surveys, and separate discussions with the third and fourth generations, a retreat was held to bring the two generations together for the first time to develop a succession plan and timeline. The happy result of this process is that the third generation was so impressed by the fourth generation's intelligence, compassion and commitment that by the end of the planning retreat there were two new fourth generation members elected to the board.

ENGAGING ALL FAMILY MEMBERS

In selecting successors, the family foundation board is faced not only with engaging different generations and different personalities, but with engaging family members with different competencies and learning and communication styles. Any succession plan that involves developing a multi-generational board should provide for adaptation to these differences, especially in a highly inclusive family foundation. For example, the board will need to provide good meeting facilitation to ensure that the viewpoints of less outspoken and less experienced family members are encouraged

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and considered. Policies, procedures, practice and patience can be employed to help develop the family group into a cohesive board that fulfills its duties to the foundation.

Engaging the next generation can take the form of a junior board, a discretionary fund training program, an internship program, an open invitation to observe and participate in foundation meetings and family community service opportunities, to name a few approaches. When making way for a new generation to continue the legacy of the family foundation, trustees should keep in mind that the older generation possesses the institutional memory and a broad base of knowledge and experience. Finding the right mix of older and younger generations will provide ongoing opportunities for intergenerational learning and a board that will provide the best stewardship for the philanthropic legacy. Finding that mix and the best operating style is a process that should be managed with careful attention as it is not likely to occur organically.

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STEPPING BACK TO MOVE FORWARD

Choosing and preparing successors is a process that can be stymied by setbacks. For the Polinger Family Foundation, the process took several years during which the board developed a donor legacy statement, rewrote its mission statement and guidelines, revised its articles of incorporation and by-laws, restructured its governance and realized that perhaps not all next generation members would be able to join the board. Adults in their twenties and thirties may be in school, beginning new careers, or starting new families, and may not have the time to devote to the foundation. The board should be prepared for the possibility that it may need to take several steps backwards in order to take the leap into a successful succession plan. The process is a worthwhile one and the resulting multi-generational participation a rewarding outcome.

CONCLUSION

Preparation for continuity and succession works best when the current board is able to identify the core values, ideals and approaches that give the family foundation its identity and purpose. At the same time, being open to the excitement of new ideas and approaches sends an inviting message to succeeding generations to join as equal partners. All will enjoy the pleasure of seeing the legacy handed down, passed on, valued and perhaps improved.

Healthy and successful families communicate openly and share resources. The same is true for healthy and successful family foundations. Charitable families are willing to share their ideas, successes and learning events with their peers in the field. Learning from those who have tried and succeeded and those who have tried and adapted will provide the ideas and ideals necessary to a successful plan for continuity and succession.

Resources: There are myriad resources available to foundations seeking to better engage and communicate with their younger generation family members and prepare their successors for board service. Several professional organizations, some developed by new generations of family foundation donors, offer workshops, consulting and opportunities for networking. Associations of philanthropists, such as the National Center for Family Philanthropy, Council on Foundations and Association of Small Foundations, provide training programs and family retreat opportunities. The National Network of Consultants to Grantmakers maintains a list of experienced and vetted consultants to grantmakers if the need for professional assistance should arise.

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WE WELCOME YOUR COMMENTS.

The National Center for Family Philanthropy, a nonprofit 501(c)(3) organization, is the only nonprofit resource dedicated exclusively to giving families and those who work with them. If you have comments, questions or suggestions for a future edition of *Passages*, contact: susan@ncfp.org.