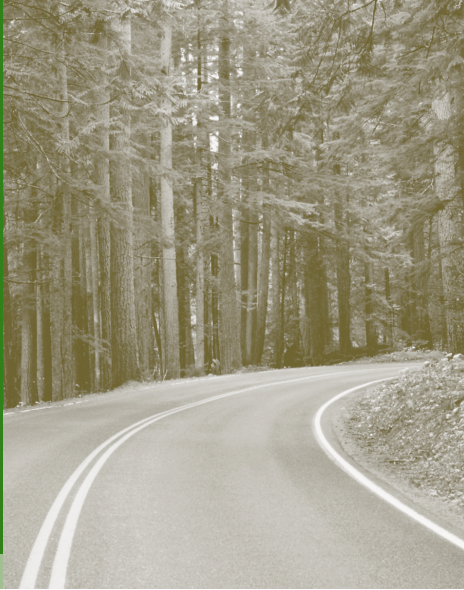


Discretionary Grants: Encouraging Participation... or Dividing Families?



As a family foundation trustee or advisor, what do you think of when you hear the term “discretionary grantmaking?” Do you envision a family that has developed innovative strategies for widespread family members to play a role in the foundation? A family that values deeply the individual interests and expertise of its board members and staff? Or do you picture a family that just can’t get along, has trouble coming to consensus about issues, and prefers to bypass difficult decisions and discussions by splitting up its grantmaking and letting individual trustees go their own way?

The practice of discretionary grantmaking brings out a wide variety of responses. “Discretionary grants” are grants made at the discretion of individual trustees or other authorized individuals, without the standard approval process and/or review by the full board. While they can take any of several forms, discretionary grants are often of personal interest to the individual trustee, and as a result may fall outside of the general guidelines of the foundation (unless the foundation specifically requires that they fall within these guidelines).

This *Passages* issue paper looks at the common reasons that families use or opt not to use discretionary grants, and the typical process that is used to make these types of grants. The paper examines how different approaches to discretionary grants can support or hinder the mission and goals of the foundation. The legal regulations regarding these practices—and the numbers of families currently using discretionary grants—are also explored. The paper concludes with a series of suggestions for considering whether or not a discretionary grants policy is appropriate to your foundation, and, if so, how such a policy might be structured.

While private family foundations are most likely to use these practices, other family giving vehicles may also find the following information to be relevant to their situations.

COMMON REASONS THAT FAMILIES USE DISCRETIONARY GRANTS

Foundations have a variety of reasons for allowing discretionary grants, and follow a number of approaches when making these grants. Although not all of the following practices fall into the common definition of “discretionary grant,” all share the defining characteristic that an authorized individual is given the opportunity to direct a gift from the foundation to a specific charity or non-profit of his/her choice, with the full board then expected to approve the gift by consent.

In some cases, these grants—though discretionary—will still have certain restrictions, such as that they be made within a specific geographic area (i.e., within the foundation’s funding region). In other cases, only certain trustees (such as the chair) or senior generations of the family are allowed to make these types of grants.

Key reasons that foundations use discretionary grants include the following:

To encourage the ongoing participation of geographically dispersed boards. Some foundations allow individual board members to support nonprofits from their own hometowns, which are often far from where the foundation is based and has its grants focus. Foundations looking to acknowledge each trustee’s regional interests, while



keeping the foundation's focus on the region that the donor originally intended, commonly use this approach.

"Discretionary grants are particularly useful in holding a family together in a foundation setting when they are geographically dispersed," says Skip Moore, president of the Weaver Foundation in North Carolina. Alison Goldberg, a trustee with a Massachusetts foundation, agrees. "Discretionary funds help all of the trustees connect with their local communities, and with issues they are passionate about."

To help trustees with basic ideological differences get along together, and keep their focus on the core grantmaking of the foundation. Foundations sometimes spend a great deal of time at board meetings arguing about basic disagreements as to whether or not to support a specific institution or cause. This can be true even when the grant amount being discussed is very small relative to the overall grantmaking of the foundation. Providing trustees with the option of making discretionary grants can minimize the time spent in these types of discussions, and can help the family focus its ongoing discussions on the core goals of the foundation.

"There will be some ideological differences among trustees in the approaches we would take to address an issue, or specific interests of individuals on the board," notes Goldberg. "Discretionary grants—as a portion of the grantmaking budget—provide a flexible mechanism for trustees to support organizations or programs that have more meaning to them personally than to the rest of the board, and therefore would be unlikely to receive funding from the general grants budget."

Others disagree with this approach, noting that this undermines the fundamental reason for establishing a family foundation. They argue that the process of coming to consensus around grantmaking to develop shared and agreed-upon goals is a crucial aspect of giving as a family. "Some kinds of discretionary grants can become the first kink in the armor of a family foundation," says one trustee. "When you start breaking up the grants into little bits and pieces among individual trustees, it risks breaking up what it means to have a family foundation."

Deborah Bussel, a trustee with a Florida-based family foundation, notes that discretionary grants used to accommodate ideological differences may have the opposite of their intended effect. "If half of the trustees have a keen dislike for an organization and one trustee wishes to support that organization, it may be better for that trustee to make a personal gift rather than one in the name of the foundation." This may avoid upsetting the rest of the board, and allow the foundation to send a consistent message to the community about the foundation's funding interests.

To encourage trustees' interest in philanthropy and specific issue areas. Many families feel that discretionary grants help inform and encourage personal philanthropy on behalf of the trustees. Trustees are sometimes expected to play a rather passive role, and are not always encouraged to do the research, due diligence, and legwork associated with identifying, selecting, and preparing a proposal. With discretionary grants, trustees may be expected to be more active, using their own ideas,

contacts, interests, and skills to help them think about appropriate grantees and projects—leading to increased knowledge, interests, and, eventually, more individual philanthropy.

"There is something satisfying about making an occasional gift simply because you believe in the cause, without all the process and structure of formal grantmaking," says Sandy Cardin, executive director of the Charles and Lynn Schusterman Family Foundation of Tulsa, Oklahoma. "Sometimes our trustees become so intensely involved in the details of their philanthropy that they lose sight of how enjoyable it can be to give money away, and discretionary grants are a good way to help trustees have some fun while fulfilling their responsibilities."

Another approach used by family foundations to encourage trustees to be personally philanthropic is to match personal board member gifts to nonprofits up to a certain level. While some observers place matching grants in a separate category from discretionary grants, matching grants can be thought of as a form of discretionary grants—by making a personal gift, the individual trustee is also directing a gift from the foundation to a specific charity or nonprofit of his/her choice. These types of grants help trustees to leverage their personal philanthropy, thus encouraging them to make gifts they otherwise might not be willing to make.

Corporate giving programs and family foundations with their origin in a closely held family business also may choose to match gifts made by employees and executives. "Matching grants help the closely held business staff feel connected to the foundation, and help them to have a better understanding of what we are trying to accomplish," notes Moore.

To recognize outside board and volunteer service. Another approach used by foundations to encourage individual philanthropy and volunteering is to honor the outside board service of trustees by making small grants to nonprofit organizations for which trustees are board members or volunteer in another capacity. Encouraging outside board service and volunteering is seen as enhancing the ongoing education and philanthropic involvement of trustees, thus helping them to become more effective—and personally philanthropic—trustees. It can sometimes be challenging to confirm and keep track of this outside service, however, and as one trustee notes, "It is important to establish a process that recognizes each trustee fairly. What do you do when one trustee serves on four outside boards, while others only serve on one? Give them four times as many discretionary grants?"

To allow for quick turnaround and response to natural disasters and local emergencies. Many foundations give the chair or a senior staff person the authority to make emergency grants in certain unusual or time-sensitive situations. Discretionary grants are particularly useful in situations where the board is not able to come together on short notice to approve a grant needed to provide support in a natural disaster or other local emergency. Being flexible and responsive to such situations is an important role for family foundations since few other funders have this ability.

One large Midwest family foundation gives its executive director a substantial discretionary grants fund, with the understanding that this fund will be used to make a large number of small (\$7500 or less) grants to help in the case of emergencies and natural disasters, as well as to help small nonprofits, startups, and previous grantees experiencing short-term cash flow problems. “Discretionary grants are incredibly valuable if they are used for good grantmaking, and are clearly used to support the mission and purpose of the foundation,” says the executive director.

To train new or future trustees in the work of the foundation and the grantmaking process. Families sometimes find themselves in a situation where there are either too many members of the next generation interested in becoming a part of the foundation, or alternatively, too few members of the next generation interested in the work of the foundation. Discretionary grants can be helpful in both cases. For the former, they can be used to effectively train younger family members in the foundation’s grantmaking process. For the latter, they can be used to build interest in grantmaking in a less formal way.

“Discretionary funds can be used as a way to “train” new and future trustees in how to make grants—although this can only be accomplished if there is some structure to the discretionary funding process,” says Bussel. Such a process may include site visits and proposal review by an advisory or adjunct board of younger family members, with the adjunct board then submitting its “approved” grants to the official board. In this case, the only thing discretionary about these funds is that they are not going through the standard board process.

At the same time, Goldberg notes that, “Discretionary grants are less intimidating than general grants for new grantmakers when they don’t involve formal grant proposals.” These grants can also encourage younger trustees to think strategically about grantmaking. “Last year, my younger brothers and I teamed up to direct our discretionary funds towards an anti-hunger initiative,” says Goldberg.

COMMON CONCERNS ABOUT ESTABLISHING A DISCRETIONARY GRANTS POLICY

While many argue that there are significant advantages to allowing discretionary grants, there are also a number of common challenges and difficulties associated with this practice. These include:

Ensuring that legal requirements for grant oversight are met. Like all grants from a private foundation, the Board of Directors as a whole is legally responsible for approving any and all discretionary grants made by trustees. In practice, the approval of these grants is often delegated to one trustee (such as the chair) or to a trusted staff person who is given the responsibility of ensuring that the grantee is an eligible 501(c)(3) organization, and that there is no self-dealing or conflict of interest associated with the grant. It is particularly important to pay attention to the self-dealing rules. Due to the nature of these gifts, discretionary grants may be more prone to run astray of self-dealing rules (regardless of the intentions of the individual trustee).

It is also important to remember that for discretionary grants to foreign charities, the foundation must follow standard procedures regarding expenditure responsibility to ensure that the gift will be used for approved charitable purposes. For more information on this issue, please see *Beyond our Borders* listed in the Resources section below.

Finally, because the full board is legally responsible for all grants, any penalties that apply to the individual trustee will apply to other board members as well. Thus, it is in the interests of all trustees that discretionary grants—whatever their style and purpose—are taken as seriously as other grants by the foundation.

Ensuring that individuals do not receive any benefit from grants made by the foundation. By law, trustees are not allowed to make a pledge/ promise on behalf of the foundation to cover a personal obligation, or to receive any direct personal benefit from the result of a grant. Thus, discretionary grants may not be used to cover an individual trustee’s annual alumni donation to

Figure 1:

REASONS FAMILIES ESTABLISH DISCRETIONARY GRANTS PROGRAMS

Many families find that discretionary grants can be an effective way of encouraging and rewarding trustee participation. Common reasons for developing a discretionary grants policy include:

- 1) To encourage the ongoing participation of geographically dispersed boards.
- 2) To help trustees with basic ideological differences get along together, and keep their focus on the core grantmaking of the foundation.
- 3) To encourage trustees’ interest in philanthropy and specific issue areas.
- 4) To recognize and encourage outside board and volunteer service.
- 5) To allow for quick turnaround and response to national disasters and local emergencies.
- 6) To train new or future trustees in the work of the foundation and the grantmaking process.
- 7) To bring clarity to the overall grantmaking of the foundation, by requiring that all other (non-discretionary) grants must fit strictly within the program areas of the foundation.

a college, or other promise, where that promise is intended to reflect a gift from the individual. Making this clear to all of your foundation's trustees is imperative before agreeing to establish a discretionary grants policy.

"When we developed our matching grants program, it was important to make it clear to both the participants and to the beneficiaries that there should be no benefits received by the individual who makes the qualifying gift," says Linda Evans, president and trustee of the Meadows Foundation. Having a clear, written policy is helpful in managing the process.

Ensuring that the foundation's mission and guidelines are clear to outside grantees and other observers. One of the most common challenges of discretionary grants is that they may lead to confusion about the goals, purpose, and procedures of the foundation among grantees, outside observers, and, in many cases, the trustees themselves. "It is difficult to build a cohesive portfolio of grants when a significant portion of the foundation's grants are distributed to organizations that are not subject to the same review process," notes Bussel. "Discretionary grants should have guidelines wrapped around them; otherwise the foundation sends out mixed messages to the community and the grantees."

If the grants process is completely discretionary, trustees may make grants that ignore deadlines and key restrictions (geographic, focus area, etc.), or that are completely at odds with the foundation's mission. This makes it difficult for the foundation to explain its focus and guidelines in future years, and often ends up inviting additional requests from grantees who may incorrectly assume that their proposal falls within the foundation's "discretionary" guidelines.

The Needmor Fund, whose mission is to work with others to bring about social justice, asks family members to

contribute their own funds prior to becoming a trustee. Many family members (both trustees and non-trustees) also contribute to the fund on an annual basis. For several years, the foundation allowed individual trustees to make discretionary grants out of the funds that they contributed to the foundation. "The foundation looked inconsistent if you looked at all of our giving, because some went to schools, museums, and other organizations not directly related to our mission," explains trustee and family member Molly Stranahan. "It also put a burden on the staff to make sure we had all the appropriate paperwork for the grantee. Partially as a result of this, we have discontinued the practice, and no longer have discretionary grants for family trustees."

As noted previously, even foundations that do allow discretionary grants often choose to place guidelines restrictions on them. "The primary discussion we have had with respect to discretionary grants is whether we hew to the regular guidelines or let trustees/staff make discretionary grants outside of regular guidelines," says Weaver Foundation President Skip Moore. "We have chosen to stay largely within these guidelines at this point."

Keeping the trustee's primary focus on the shared goals of the foundation. Family foundations are established to reflect the shared values and traditions of the founder's family. An important part of a foundation's value is its ability to bring together family members to talk about issues that are important to the group as a whole.

Discretionary grantmaking involves little or no discussion, family interaction, or consideration of shared values and the foundation's mission. It also minimizes feedback and additional ideas from other trustees that may make the grant more effective and meaningful. Finally, there is little accountability

Figure 2:

REASONS FAMILIES DO NOT ALLOW DISCRETIONARY GRANTS

The majority of family foundations do not use discretionary grants. Some of the most common reasons they give for not allowing discretionary grants include:

- 1) Family foundations are supposed to be about family—by allowing individuals to make their own grants, you take the *family* out of the decision
- 2) Family foundation grantmaking is not intended to be about one's personal prerogative
- 3) The full board is legally required to approve all grants, and allowing discretionary grants—without developing a formal review and approval system—may increase the likelihood of self-dealing or conflict of interest in grants (or at the very least, it may increase the perception of this)
- 4) Ensuring that discretionary grants are made to eligible grantees and filling out the necessary paper work for a large number of small grants takes significant time and effort
- 5) Discretionary grants that are outside of standard guidelines can send mixed messages to grantees and potential grantees, particularly where grants lists are included in the annual report and/or other printed materials
- 6) Discretionary grants that do not support the goals and purpose of the foundation make it more difficult for the foundation to be effective in reaching its stated long-term goals
- 7) Some family members may feel that discretionary grants are a substitute for a personal responsibility to give and families may not want to encourage this attitude
- 8) Once the practice of discretionary grants is started, it can be difficult to keep it from escalating, with a growing percentage being allocated to discretionary grants each year. This is especially true if the number of trustees is increasing as the generations participating in the foundation increase.

with regard to why the grant was approved, how it fits within the foundation’s guidelines and other funding efforts, and how effective the grantee is in doing its work.

“While I would love to have money from Needmor to direct to some of my favorite charities, or to match my gifts to charities,” says Stranahan, “I think it is more important to maintain the foundation’s integrity and purity of focus.”

Dealing with the expansion of the number of trustees and family members eligible to make discretionary gifts. As the number of generations and branches of the family involved in the foundation increase, having a discretionary grants policy may tempt the board to divide grants even more formally. “I do not favor allocating the total grant budget by branches of the family and calling that discretionary,” says Moore. “That is simply creating ‘mini foundations’ under a common name and check writing system.”

One family foundation staff member warned about the danger of discretionary grants becoming a “Pandora’s Box,” with trustees expecting to receive more and more discretionary funds each year, even as the board and family is growing larger and more dispersed. How do you decide which family members are given a discretionary grants budget, and which are not? What do you do when individual trustees suggest that their discretionary grants budget be increased? These are common questions, and foundations who have, or who are considering establishing, discretionary grants policies should be prepared to answer them.

DISCRETIONARY GRANT PROCESS VS. TYPICAL GRANT PROCESS

The key difference between a standard grant and a discretionary grant is the process used to make them. In the latter case there is minimal if any board or staff review or

discussion. Typically, trustees are given the right to direct one or a small number of grants each year to nonprofits and community institutions they are familiar with. The maximum total amount of these gifts is often either a set amount (for instance, \$5,000 per year), or a percentage of the total grantmaking budget for the year. Minimum and maximum amounts for each grant are also often set—the former to reduce the time needed to spent on paperwork and on ensuring that the grantee is an eligible, 501(c)(3) organization.

The following diagrams give some idea of how the typical grant process works, as well as how the typical discretionary grant process works. Figure 3 illustrates the typical grant review process, where a proposal originates from any of a number of sources, is reviewed and vetted by support staff or the board’s grantmaking committee, and then (if approved for full board discussion) is decided upon by the full board after discussion and review.

Figure 4 shows what happens with a typical discretionary grant. Based on the individual board or staff member’s recommendation, the proposed grant is automatically approved by the full board (assuming it is legal and meets any restrictions the board has set on these types of grants).

Please note that although these diagrams illustrate the typical process for these grants, there is no reason that your own foundation can or should not establish a system whereby discretionary grants also go through some level of committee or board review.

One experienced foundation advisor also recommends that foundations consider developing a reporting and approval format for discretionary grants that, while less comprehensive than it may be for standard grants, includes a checklist of the essentials necessary for a responsible approval process, including:

FIGURE 3: BOARD REVIEW PROCESS FOR A TYPICAL GRANT

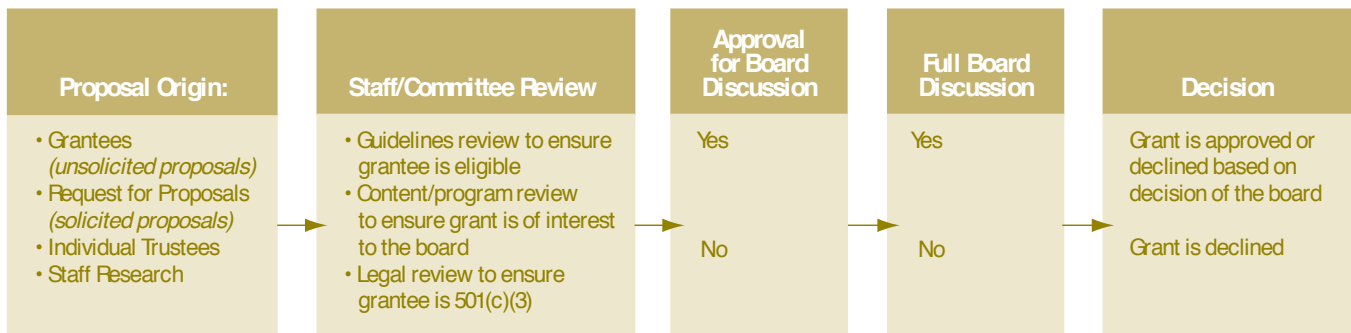
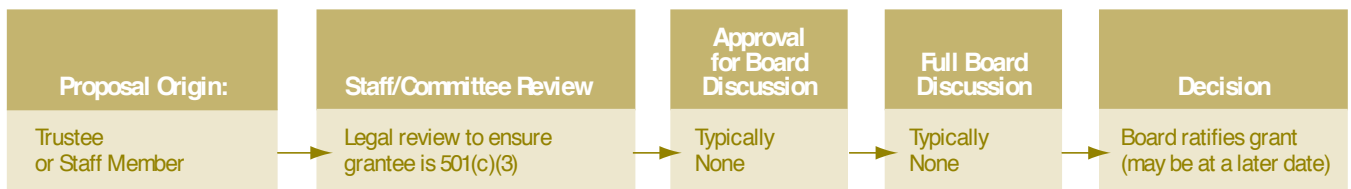


FIGURE 4: BOARD REVIEW PROCESS FOR A DISCRETIONARY GRANT



- 501(c)(3) letter (legal) and mission statement of grantee (public purpose)
- Most recent audit and 990 form (fiscally responsible)
- Board list (independent; no self-dealing)

Some observers point out that many family foundations grants are driven by individual trustees, and thus will always have some level of “discretion” inherent in them. Still, the process used to decide on these grants is important, and helps determine whether or not the grant is considered a discretionary grant. “Our family believes in supporting organizations in which a trustee or family member is involved or has an interest. Every request, including those with Director or family support, must meet our grant guidelines and undergo the same review process,” says Linda Evans, president of the Meadows Foundation in Dallas, Texas, which does not allow discretionary grants (other than matching grants) by its trustees. “However, if we understand there is special interest in an agency, we will make every effort to help them fashion a request that meets our guidelines. From time to time, we determine that a grant to one of these special agencies does not fit within our guidelines but we look for other ways to help them.”

HOW MANY FAMILIES USE DISCRETIONARY GRANTS?

Discretionary grants and matching gifts are used by a growing number of foundations. A 1998 survey by the Council on Foundations found that 42 percent of family foundation respondents permitted one or more of their board members to make discretionary grants, compared with 32 percent of respondents from a 1992 survey. The Association of Small Foundations, a membership organization for foundations with small staff, found that roughly one-third of its membership allowed individual board members to make discretionary grants, while 15 percent allowed staff members to make these types of grants. See Figure 5 for more information about results from the ASF survey.

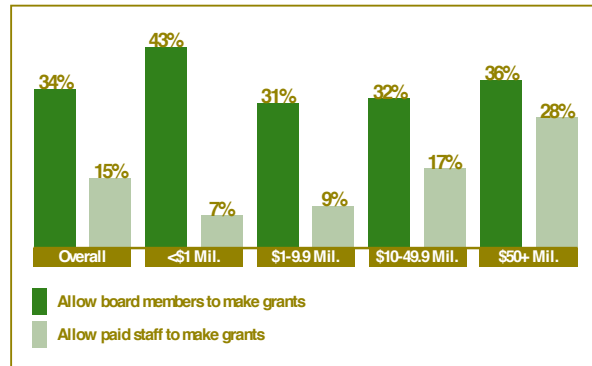
While the annual amount of discretionary gifts can vary widely—the Council’s study indicated a range of \$300 per board member to \$1 million in one very unusual case—the annual discretionary grants “budget” provided for trustees appears to average somewhere between \$5,000 - \$10,000. Obviously, these amounts are tied to many factors, including the asset size of the foundation, the number of trustees, funding guidelines, and other issues.

PREPARING FOR THE DISCUSSION

Does your foundation currently engage in any of the above styles of discretionary grants? If not, should you consider allowing your trustees to make one or more of these types of grants? If you do allow these grants, would there be any value in helping your trustees to develop shared expectations about how these types of grants should—and should not—be used?

The remainder of this paper describes how to think about these issues and, if you decide that discretionary grants do support

FIGURE 5: PERCENTAGE OF FOUNDATIONS THAT ALLOW INDIVIDUAL MEMBERS OF THE BOARD AND STAFF TO MAKE DISCRETIONARY GRANTS



Source: Membership Survey Report 2000, Association of Small Foundations. Reprinted with permission.

the mission and goals of your foundation, how to develop policies and procedures to ensure that they continue to meet these goals.

Review the Foundation’s Mission and Goals. Prior to considering or reviewing a policy on discretionary grantmaking, make sure that the board has defined its goals for the foundation. These goals should remain at the forefront of any board discussion about discretionary grants, and should be referred to throughout the process.

Goals that are commonly cited by family foundations include:

- honoring the founder’s legacy
- giving back to the community in which the money was originally made
- giving to a cause or issue that is of great importance to the founder and the family
- providing a forum for multiple generations of the family to develop consensus and to discuss shared values and dreams
- encouraging philanthropy and community activism among current and future generations
- developing future leaders for the family and the community

Often the founders and the family will have multiple goals for the foundation, and it is important that the board consider how establishing a discretionary grants policy will affect each of these goals. The preceding section on “Common Concerns” describes some of these potential effects.

If the board has not previously discussed and approved at least a basic mission statement or grantmaking guidelines for the foundation, consider developing them prior to developing a discretionary grants policy. It may be much more difficult to develop a shared mission and guidelines after you allow individual trustees to have significant discretion in their grantmaking decisions.

Determine Reasons for Discretionary Grants Policy. Once the board has defined the goals of the foundation, it is then ready to consider how a discretionary grants policy may

or may not help them achieve these goals. For instance, if one of the key goals of the foundation is to encourage individual family members to develop their own philanthropic interests in the communities in which they live, establishing a discretionary grants program for this purpose may support this goal. If, however, the primary goal of the foundation is to bring family members together to talk about and make decisions together based on shared values and history, certain types of discretionary grants may not be appropriate.

Talk with other foundations that allow their trustees to make some form of discretionary grant to get an outside perspective. Some of the questions you may consider asking include:

- Do your trustees make use of the discretionary grants program?
- What is their experience with these types of grants?
- How have these discretionary grants fit with the overall mission and goals of the foundation?
- Has there been any concern among trustees about grants by individual trustees?
- Have grantees or colleagues expressed confusion about the guidelines of the foundation as the result of one or more discretionary grants?
- What other advantages or disadvantages have you seen in the use of these types of grants?

If, based on a review of your foundation's goals and feedback from others, you decide that a discretionary grants policy may be appropriate to your situation, consider a board discussion to define specific goals for establishing this policy. Do you want to specifically encourage individual giving by current and future generations, by encouraging them to explore their

**"Having a defined policy
will allow future trustees to
reflect on the effectiveness
of these grants."**

own interests and causes? Do you want to make board service more "attractive" to current and future generations? Do you want to make it easier for geographically dispersed board members to give in their own communities, where they have more knowledge and contact with potential grantees?

Establishing a specific rationale for your discretionary grants policy will be helpful to both current and future trustees, who will need to evaluate and/or revisit the effectiveness of the policy at a later date.

When board members state or imply that there is a more drastic rationale for establishing a discretionary grants

program—such as that the family has serious difficulties working together or has no desire to meet with one another—then you may wish to consider other alternatives. These may include establishing donor-advised funds in local community foundations, splitting or spending out the foundation, or appointing additional non-family board members to help relieve the tension or conflicts that may exist. Although rare, these solutions are used, and may in the long run be more appropriate than establishing a discretionary grants strategy. A general litmus test is that your board should have positive reasons for allowing trustees to make discretionary grants, rather than purely negative ones.

To help your board think clearly about the issue, use the initial list of considerations in Figures 1 and 2 to help develop your own list of reasons that families do and do not establish discretionary grant policies. For ideas of families and foundations to talk with about these questions, contact the National Center for Family Philanthropy, or your local regional association of grantmakers.

SUGGESTIONS FOR ESTABLISHING A DISCRETIONARY GRANTS PROGRAM

If your board decides that a discretionary grants policy is appropriate to the foundation's mission and circumstances, a written statement addressing each of the following issues may help to ensure that this policy is consistently followed and effectively implemented. Having a defined policy will allow future trustees to reflect on the effectiveness of these grants, and will ensure that all trustees have a clear understanding of what they can and cannot do. Suggestions for this policy include:

- Establish a maximum amount that individuals may distribute in discretionary grants, as well as a maximum amount that the board and staff may distribute combined each year. It is rare that this total would be more than 10 to 20 percent of the total grantmaking of the foundation (often much less).
- Include a clear statement that discretionary grants are in no way intended to replace the trustee's individual giving responsibilities, and that trustees are expected and encouraged to engage in their own personal giving apart from that of the foundation. Include in this statement "a clear rule that no personal benefit/recognition should accrue to a trustee through the distribution of discretionary funds," according to Bussel. Such disallowed benefits may include the payment of charitable pledges by individuals, the payment of membership dues or fees on behalf of a disqualified person, or the purchase of benefit tickets. For more information, see the additional resources listed at the end of this paper.
- Consider adopting a policy whereby individual trustees are asked to report back briefly to the board annually or semi-annually on discretionary grants they have made. This will encourage them to be accountable in these grants, and will help them to educate other board members about their interests.
- Consider developing guidelines for discretionary grants that mirror or reflect those of the foundation itself (or simply

require that they fall within the foundation's overall guidelines). While some argue that this goes against the very reason for allowing discretionary grants, in the long run this may help ensure that these grants support the mission and goals of the foundation.

- Determine what procedures the board will go through to ensure that the grants are legal and meet the guidelines they have set up. "All grants need to be approved by the board," says Bussel. "The board needs to know what the foundation is funding before and not after the fact. This makes the trustees think ahead about their discretionary distributions and consider whether it is appropriate as a foundation distribution." Other foundations establish a system whereby grants can be made without the full board's approval, but must be formally ratified at the following board meeting (this is particularly helpful with regard to emergency grants).
- If you print or post on a website an annual report or grants list, consider listing discretionary grants separately or highlighting them in some other way. One option is to include a short description of the rationale behind your decision to allow trustee discretionary grants. The Dyson Foundation's website describes its discretionary grants program as follows, "Members of the Board of Directors have the opportunity to direct a certain amount of grant funding to eligible not-for-profit organizations of their choosing. While these grants do not reflect the Foundation's overall funding priorities, they do reflect the diversity and creativity of the Foundation's Directors."
- Review the policy on an annual basis to ensure that the policy continues to support the mission and goals of the foundation and the trustees.

CONCLUSION

When designed to support the overall mission of the foundation and the involvement of family trustees, discre-

tionary grants can be an innovative and effective tool for encouraging family participation.

However, when used simply to avoid difficult situations and to divide up grantmaking among individual trustees, discretionary grants can corrode the very essence of what it means to give as a family, while also dampening the foundation's ability to be an effective and valuable institution for the communities it serves.

We hope that this paper will help you and your board to think more clearly about this important issue, and to develop an approach that is legal, clear, and consistent with the goals and mission of your foundation. We encourage you to contact us with your own stories and suggestions, so that we may share your experiences with others.

ADDITIONAL RESOURCES ON DISCRETIONARY GRANTS

Beyond Our Borders, by John A. Edie, Council on Foundations, 1994. To order, go to: www.cof.org.

Family Issues, by Deanne Stone, Council on Foundations/National Center for Family Philanthropy, 1997. To order, go to: www.cof.org.

Family Foundations and the Law, by John A. Edie, Council on Foundations, 1999. To order, go to: www.cof.org.

Grantmaking with a Compass: The Challenges of Geography, by Deanne Stone, National Center for Family Philanthropy, 1999. To order or view an excerpt, go to: www.ncfp.org.

"Q & A on Matching Gifts Programs," by Jane C. Nober, Council on Foundations, 1997.

Responsible Family Philanthropy, by Michael Rion, Council on Foundations, 1998. To order, go to: www.cof.org.

The Trustee Notebook: An Orientation for Family Foundation Board Members, by Robert Hull, National Center for Family Philanthropy, 1999. To order or view an excerpt, go to: www.ncfp.org.

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By Jason C. Born

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The information in this paper should not be taken as qualified legal advice. Please consult your legal advisor for questions about specific legal issues discussed in this essay.

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The National Center gratefully acknowledges J.P. Morgan's generous contribution that helps make the National Center's Passages series possible. Our development of new information and resources for donors, their families, and their advisors depends on both the general and project support of funders who share our interest in encouraging and advancing family giving.

WE WELCOME YOUR COMMENTS

The National Center for Family Philanthropy, a nonprofit 501(c)(3) organization, encourages families and individuals to create and sustain their philanthropic missions. In doing so, we are guided by a set of values and principles that reflect our own understanding of the opportunity, character, and contributions of family philanthropy. These values include:

- We value the participation of individuals and families in private, organized philanthropy.
- We value the donor's right and ability to direct charitable assets through the philanthropic vehicles and to programs of choice.
- We value the personal acts of generosity that inspire private philanthropy, respecting both the issues of privacy and public trust that attend the decision to give.
- We value the pursuit of excellence in philanthropy.
- We value the role that philanthropy and philanthropic citizenship plays in a civil society.
- We value the participation of new voices in our field.
- We value collaboration and respect our colleagues in this work.

A full statement of these values and guiding principles as well as a description of our programs and services is available on our website at www.ncfp.org.