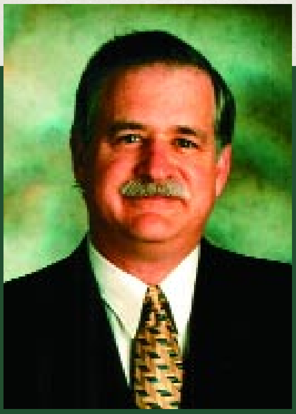
# FAMILY FOUNDATIONS:

## An Interview with Kelin Gersick

*Interviewed by Pamela Gerloff*



*Kelin E. Gersick, Ph.D., is a senior partner at Lansberg, Gersick and Associates* (**www.lgassoc.com**)*, which specializes in assisting generational transitions in family businesses and foundations. He is professor emeritus in the doctoral program at the California School of Professional Psychology and a management fellow at Yale University. Dr. Gersick is also the principal investigator for the National Center for Family Philanthropy's* (**www.ncfp.org**) *research study of strategies for effective transitions in family foundations, "Generations of Giving: Leadership and Continuity in Family Philanthropy." This interview is based upon the forthcoming research report, which focuses on issues of leadership and continuity across generations. (See sidebar, p. 20, for how to receive additional information about the study, or to order a copy of the Interim Report.)*

**MTM:** What are the biggest challenges people need to anticipate when transferring leadership of a foundation to the next generation? Where might things "go wrong"—and how does one "make them right"?

**Gersick:** Based on our research, the approach we would take toward a generational transition is to recognize that it's a process, not an event. Family foundations are constantly evolving. The ones that do it best, which is to say, the ones that feel most in control and satisfied with the outcome, are thinking all the time about where they are in their evolution—of their policies, grantmaking, and governance; of the readiness of family leaders to rise to new levels of leadership; and of the ability of current leaders to pass on the mantle of authority.

Foundations where there is relatively long-term development of the succeeding generations are in a much better position than foundations that haven't provided for that. This means giving the next generations time to, first, become acquainted with the foundation; then to become participants; and eventually, to become active. Typically, the longer the newer generations have been involved in the foundation, the better.

> "Family foundations need to evolve—so they need to be able to evolve."

Secondly, the more meaningful the criteria and selection processes are for the next generation of trustees, the better. Some use rigid representational techniques, like age or geographical location, without regard to such factors as interest, capacity, or point of view. Others are much more concerned about "fit." They consider the work that needs to be done and individual family members' readiness to make a contribution. That generally works better as a way to select trustees and resolve issues as a foundation moves forward. As the foundation evolves, it's good to keep refining the selection criteria, to maximize the likelihood of having family members who are dedicated, prepared, and eager to contribute.

**MTM:** Are there differences between transitions in family foundations and transitions in family businesses?

**Gersick:** There are differences in the organizational economics of businesses and foundations. The main difference is that because the performance of family companies is of critical importance to surviving—to being smart and competitive in the marketplace—and the primary stakeholders are all in the family, more attention gets paid in family businesses to setting performance criteria for future leaders; and more explicit demands are made regarding the performance and behavior of family members in their roles.

Foundations, on the other hand, are more likely to make choices based on representation, like whose "turn" it is to serve on the board, or equity ("What's fair?"), or demographics ("This year we need someone from the West coast.") In general, organizational needs in family foundations—like the need for good management and a good infrastructure—are not given enough attention. The people governing family foundations are not generally held to the same standards or given the same resources of leadership as in family businesses. Family foundations are set up for entirely different reasons than family businesses, of course, and it is not entirely surprising that they have different challenges—and opportunities.

# The Next Generation

**MTM:** Your research says, "Actions in family foundations have very long 'half-lives.' Without the ups and downs of business cycles to capture everyone's attention, foundations tend to perpetuate core issues of the family for a longer time, returning to the same dilemmas over and over, even as individuals change." What's a way out of that?

**Gersick:** Family foundations sometimes can become a primary theater for the enactment of family dynamics. These dynamics involve issues among siblings, families, and generations. Because foundations are closely tied to issues like values, individual differences become very central to the things people talk about in foundations. The foundation is therefore a place where, for example, family members will continue to revisit questions like where their wealth came from and how they feel about it; or one branch of the family may have developed a liberal outlook and another may be conservative, so the two branches hold different views of what the foundation should be supporting with its philanthropy. These questions and differences have meaning in the grantmaking discussions—so that's why family foundations tend to continually return to the same core dilemmas, in ways that family businesses do not.

To the extent that families can separate these kinds of discussions from the foundation itself—that is, create enough of an opportunity to discuss issues of value and identity without always connecting them to specific issues about grantmaking—families have a chance to reach common ground more easily. Those kinds of discussions may occur at a retreat, or a family meeting, or just in talking among themselves about fundamental issues of value.

**MTM:** Sometimes family foundations create a very specific mission, but a generation or two later the world changes and that mission is outdated. From your research, would you say it is better to be more specific or less when creating the foundation's initial focus and mission?

**Gersick:** Founders who create a specific programmatic constraint that they expect to maintain in perpetuity are taking a huge risk. The risk is that the issue they find compelling will become irrelevant (the buggy whip phenomenon) or that no successors will find it compelling enough. The advantage is that they get enormous focus and clarity.

By being less specific, the founders are creating the opportunity to be collaboratively philanthropic and to leave a legacy of values, not of programmatic constraints. The risk in this is that it requires a lot more continual reinventing by the next generation because there is no directive to follow; but the chances of the foundation being more broadly adaptable and finding a constituency in the future are higher.

**MTM:** One family foundation I know of originally gave money to provide care for elderly nurses when they could no longer work. Later, when it had much more money to donate, it broadened its mission to support the hospitals and institutions where the nurses work, including purchase of hospital equipment.

**Gersick:** To the extent that they can find a legally acceptable way to do that, I think that's good. Our conclusion, based on this research, is that family foundations need to evolve—so they need to *be able* to evolve.

**MTM:** Does the key to continually evolving lie in how the foundation is originally set up?

**Gersick:** The concept and design at the beginning has many implications far down the road. Sometimes the most important thing that determines the success of a next-generation continuity is a decision early on that affects things 50 years down the road. If a founder couple with three children choose to include only the eldest child on the board for the first 20 years of the foundation's life, that will most likely create a very different long-term dynamic than a founder couple who include all three of the children from the beginning.

**MTM:** Did you find anything in your research that particularly surprised you?

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### Family Foundations: Tips for Transferring Leadership

- Recognize that transitioning across generations is a process, not an event
- Involve members of the next generation over a long period of time, giving them time to gradually become more knowledgeable and involved
- Choose meaningful and relevant criteria to select the next generation of trustees
- Focus on "fit," not quotas
- Value high standards of performance and provide sufficient resources to achieve them
- Talk about family issues and values separately from grantmaking, so those discussions don't dominate the work of the foundation
- Set the foundation up at the outset to allow for reinvention and redesign later on

**Kelin Gersick** *continued from p. 19*

**Gersick:** One interesting concept is that family foundations often do not begin as foundations, but rather as the formalized personal giving of the founders. This means that the foundations have to discover and define themselves later in their lives. That's the creative moment of the family foundation—when it transitions from being a formal operation for the personal giving of the donor to a family foundation with a mission that involves collaboration of many voices to achieve. In many cases, that doesn't happen for a generation or more.

## Generations of Giving

A book based upon the *Generations of Giving: Leadership and Continuity in Family Foundations* project will be available in late 2003.

To receive information about this study, send an email with your contact information and "GOG Report Request" in the subject line to ncfp@ncfp.org.

To order a copy or view an excerpt of the Interim Report for this study, visit **www.ncfp.org/publications-passages-current.html**.

"Ninety percent of family businesses don't make it to the third generation, but family foundations tend to live longer. They are transitioning values, not money, which makes the difference."

**MTM:** Is that the most vulnerable time—that transition from founders to the second generation—in terms of whether a family foundation continues or not?

**Gersick:** It's not just continuation that's needed, its reinvention. It's a truly collaborative process. Discovering how to do that is the primary challenge of this first transition. Most of the foundations in our research sample found that the transition from the first to the second generation was not simply a succession—it was a significant redesign. Because of that, using an outside consultant was often beneficial to help review strategy, bylaws, and policies. Many fundamental reconsiderations had to occur.

**MTM:** How long do family foundations usually last?

**Gersick:** Theoretically, in perpetuity—but we don't really know. Family foundations have been around for only about 100 years. We don't know how long some of them might last. Ninety percent of family businesses don't make it to the third generation, but family foundations tend to live longer. They are transitioning values, not money, which makes the difference. ■

If present trends continue, family foundations will control more than $500,000,000,000 in assets over the next few decades. There are now more than 50,000 private foundations in the United States, providing essential support to our social service and cultural systems, and at least two-thirds of them are controlled by families.

*—From the National Center for Family Philanthropy*
**www.ncfp.org/program-research-generations.html**