The Family Advisor: Management Issues for Family Foundations
Family vs. Nonfamily Management: The Castle Foundation Shares its Story

By Al Castle, Executive Director
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Al Castle is a family trustee of the Samuel N. and Mary Castle Foundation in Honolulu. After serving on the board for several years, he was hired as the first executive director of the foundation by his fellow board members. He also continues to serve as a trustee. In this position paper, he discusses various management options for family foundations, and specifically, the management option that was right for his own-family staffing.

There is no one best way to manage a family foundation. In fact, a foundation may go through several types of management during its lifespan. This has been the case of the Samuel N. and Mary Castle Foundation during its 107-year history. During this time, our foundation has been managed in many ways-through a law office, a trust company, a community foundation and by the family. After exploring the many options, we recently returned to the family management initiated by the donor, Mary Tenney Castle, who managed all aspects of the foundation herself. I share with you now the way we made this change, our reasons for it and the advantages and disadvantages of doing so. Hopefully, our story will inform family foundations considering family staffing.

Background

Formed in 1894, the Samuel N. and Mary Castle Foundation is America's oldest family foundation still in existence. The foundation traces its history to the social reform philanthropy of its founder, Mary Tenney Castle, the prominent pre-Civil War abolitionist and missionary to Hawaii. She used family equity holdings in the venerable Castle & Cooke (1851), a real estate and agricultural company, to establish a permanent, family-controlled endowment for furthering early childhood education and care.

After Mary's death in 1907, her son W.R. Castle, the former attorney general of Hawaii, administered the foundation through his law offices. W.R. served as president until 1935, and then shifted the daily management to the Hawaiian Trust Company (today called Pacific Century Trust Company).

In 1987, the trust company reorganized and contracted most of its grants management to the newly organized Hawaii Community Foundation. Under this structure, the Samuel N. and Mary Castle Foundation grants were assigned to several part-time grants managers, while the Trust Company retained all fiscal management and investing. This worked well for our foundation, as it did for several large family foundations. In exchange for sharing costs and lower administrative overhead, we received expert part-time management under the Hawaii Community Foundation.

In 1998, however, with assets exceeding $40,000,000, the board members discontinued the annual agreement with the community foundation. They wished to increase the foundation's visibility within the community and create an opportunity for stronger family direction. After considerable thought and consultation, the board reorganized, opened a small but functional office and hired me as the first full-time executive director.

Today, the Samuel N. and Mary Castle Foundation has a board of four family leaders, all descendents of the missionary couple, Samuel N. and Mary Castle. The foundation retains me as the full-time executive director, and also a part-time bookkeeper through Pacific Century Trust and a part-time office assistant. The foundation receives about 600 inquiries for funds per year and makes 70 to 120 grants in amounts ranging from $1,000 to $250,000 annually.

In our third year of family management, we move forward with renewed confidence in our direction, a focus on early childhood education and care, and a greater visibility and presence in the community.

Why a Family Manager?

A family foundation that depends on its family members to manage the daily affairs can be an attractive choice. Family members often bring the critical ingredients for a successful foundation: a passion for philanthropy, a firm understanding of the donor's intent, knowledge of the community and a clear sense of family values.

In considering this option, the board should first ask itself the following questions:

- Are any family members ready to obligate themselves to staying current in a programming field? To assuming responsibility for a foundation's strategic partnerships, community outreach and post-grant assessment?
- If so, do they have the time and expertise for the job?

If the answers to these questions are yes, consider the following advantages and disadvantages of hiring a family manager.

Advantages of family management versus nonfamily management include the following:

Advantages to Family Management	Advantages to Nonfamily Management
No one knows the history, culture and purpose of a family foundation better than a family member. This is especially true if the family member has had long experience with the foundation, perhaps serving as a	Outside staff can bring program expertise not easily found among busy family members. This expertise can be invaluable if programs are geographically dispersed or complicated.

board member or being close to a founder.	
A family member who serves as manager will typically have a close relationship with family board members and will have an ability to effect change in direction or purpose.	Nonfamily management may lend objectivity to a foundation's work. The nonfamily manager comes with no emotional baggage or history and may be just the element to move a foundation forward. An experienced nonfamily manager may point family board members in new directions, toward new opportunities and partnerships. Nonfamily managers may also assist in board development, organization and generational succession issues.
A family member who knows the organizational culture of the foundation can communicate the purpose and value to the public, while processing grant proposals smoothly.	A nonfamily manager runs less risk of becoming embroiled in family dynamics, which can complicate-even compromise-the effectiveness of family managers. Board members will be less likely to view a professional as dominant in grantmaking decisions, while a family manager (depending on role in family) may intimidate those board members who know less about proposals.
Family managers often enjoy an unusual degree of confidence with their board members and can, within policy guidelines, expedite grant programs and procedures quickly. As a result of having a family manager, foundation meetings may be faster, more honest and more effective.	Again, nonfamily managers do not engage in family dynamics, as a family manager inevitably does. Some board members may view family managers as having particular biases or alliances with certain board members. This can be particularly true if those managers have been long-time board members.
By designating a family member as chief spokesperson, it is likely the family foundation will be well represented and understood in the community.	The community may view a nonfamily manager as more objective and more professional. Family members rarely have the experience, programmatic connections and affiliations that a long-term professional grantmaker is likely to have.

Each family foundation should weigh these advantages to family vs. nonfamily management against its own individual circumstances.

At the Samuel N. and Mary Castle Foundation, the advantages to hiring a family manager outweighed any potential disadvantages. The board members knew that many of the grants would continue to be small and laborious, as the foundation assisted many daycare providers and preschools. Board members opted for an active management style in which the foundation would be visible and available to the media and the public. More importantly, the foundation committed to adding substantial value to the community beyond making cash grants of $2.5 million per year. Board members wanted me, with my background as a professor of nonprofit management, to provide technical assistance, actively seek funding opportunities and contribute to the public understanding of what the Castle family-and foundations in general-do for the commonwealth.

Hiring the Family Manager

If the board members consider the advantages and disadvantages and decide that a family manager is the right choice for the foundation, they have the important job of hiring the right family manager. Obviously, this person should have skills in interpersonal relationships, experience in the grantmaking field, writing and communication skills, knowledge of computers and other information technology, analytical skills and discipline. In addition, I recommend a manager who has had substantial experience working or volunteering in the nonprofit sector and/or business community.

Before the hiring process begins, board members should conduct a thorough review of the current and future needs for leadership and direction. Often, this is done after a retreat where board members openly assess the need for the position and the necessary skills desired in a manager. It is particularly important to have this discussion if the following circumstances exist:

- The assets have enlarged or are likely to enlarge in the future;
- Grantmaking and programming needs have changed or are likely to change;
- The board has changed in composition or philosophy;
- The geographical distribution of grants has changed; or
- The board has altered any long-term strategies.

Once board members have this discussion, they should draft a complete job description that everyone endorses. This job description will serve as an operating framework for the office and a means for hiring and evaluating the new manager.

In my own case, I left a long career as a college teacher and administrator, a writer and a professor to assume the full-time duties of our old and fairly large foundation. The board members had long wanted me to manage the daily affairs of the office while maintaining a strong regional and even national presence for the family philanthropy. Meeting without me, my colleagues discussed my background in great detail and wrote a job description. After I agreed to assume the responsibility of executive director, I worked with our five-member board to draft a revised job description-one that best suited my strengths and the needs of the foundation. As I had served four years as the board president and had supervised part-time staff, I knew most of the operations well. Because of my own passion for the field and our shared philanthropic ethic, I was able to start the office quickly and move in sync with board member expectations. There was no learning curve; we were off to the races.

Compensating the Family Manager

Family foundations tend to pay family managers less than they would a nonfamily manager. Board members may feel that family service should be partly or mainly voluntary, even for a full-time manager. They might fear criticism from the public, the funding community and even the IRS. These fears, however, may be unfounded. Family managers may be compensated in a reasonable way as long as their work is necessary for carrying out the foundation's functions.

The Tax Code prohibits as self-dealing certain financial transactions between a foundation and disqualified persons. Disqualified persons include substantial contributors to the foundation and foundation managers, as well as most family members of these individuals. The rules do allow foundation managers-including family members-to be compensated reasonably for personal services that are necessary to the foundation's charitable operations. The rules in no way disallow fair and reasonable compensation to any disqualified person who provides personal services that are necessary to the foundation.

With these rules in mind, board members can feel free to compensate family managers reasonably. Salary will be based upon the job description, level of experience, skill and education, amount of time expended and-most importantly-comparable staff salaries paid by similar-sized foundations. Board members can obtain salary data from local or regional grantmakers associations, other area foundations, or the Council on Foundations annual salary survey reports. They may also consult with legal counsel to determine what salaries are reasonable. Above all, board members should be prepared to explain how they determined the compensation rate in case it is ever challenged.

When the Samuel N. and Mary Castle Foundation hired me as executive director, it was clear that I was a disqualified person, as I was both a trustee and a family member. Since I would be providing necessary services to the foundation, however, I was eligible under the Tax Code to receive a reasonable salary. Once the foundation hired me, we sent letters to our grantees, the newspapers, professional profile columns and our regional association of grantmakers, explaining our decision to hire a family member. In doing this, we met the Tax Code's requirements and shared our move openly with the public to whom we are accountable.

Evaluating the Family Manager

Like nonfamily managers, family managers are professionals and should be hired, compensated and evaluated as same. Evaluation and performance planning are the most essential components in a successful family manager/board relationship. With these simple tools in place, boards can oversee the manager effectively-and with greater ease for everyone involved.

If there is no evaluation process in place, there is a risk for wounding not only professional relationships, but personal ones as well. The board can avoid this by establishing and communicating their expectations from the beginning.

The initial job offer, for example, should clearly describe the expectations and specify the nature and frequency of performance reviews. The job offer should also state the foundation's policies and procedures on termination, leave, substance abuse, professional conduct, dispute resolution, professional development, expenses, and conflicts of interest. This can clarify any questions that may arise during the course of employment.

Next, the foundation must decide who will conduct performance reviews and to whom the family manager will report. This can be an individual, a committee of the board, or the board in its entirety. At the Samuel N. and Mary Castle Foundation, I report to President John Baldwin and am evaluated by him with input from the board.

Once these decisions are set, the board should develop specific objectives for the family manager. If these objectives are set forth in advance with mutually agreed upon goals and timetables, the board will provide the manager with a roadmap for success. When conducting a performance review, board members can refer back to those objectives as a means for evaluating the manager. It helps if the family manager participates in the review by bringing supporting documents and a narrative of completed tasks. To avoid any conflict of interest, though, the manager as well as any immediate family members should consider leaving the room while board members discuss performance and salaries.

After each annual performance review at the Samuel N. and Mary Castle Foundation, the president might recommend a salary raise to the rest of the board. This raise reflects comparisons with regional funders and is tied to specific performance. While discussing any salary changes, it helps to talk about how the manager can better serve the needs of board members and the public. At our foundation, for example, we conduct a comprehensive community survey of those who have applied to us within a three-year period. This gives board members an idea of how responsive the staff has been to those outside the foundation.

Above all, family managers must remember to communicate with their board members as often as nonfamily staff. This way, no one will be caught by surprise during an evaluation. Since our board is dispersed geographically, I keep all board members informed through memos, our Web site, letters, phone calls and personal visits. It is hardly possible to communicate too much with board members, especially when they are your family peers. What Makes an Outstanding Family Manager?

A family manager can be an outstanding asset to the family's foundation. Take the Meadows Foundation, for example. In 1997, the Council on Foundations honored Curtis Meadows, the former full-time, compensated family manager of the Meadows Foundation in Dallas. Curtis left his lucrative legal profession to direct his family foundation. His leadership in Dallas, and indeed, in the entire philanthropic community, shows just how effective family managers can be. Linda Evans, another family member, succeeded Curtis as president and CEO, and continues the foundation's strong tradition of family leadership.

Outstanding family managers bring a passion to their foundation, and a commitment to exceed the required tasks in managing it. They seek to add value to their family foundation's grantmaking by leveraging assets, building constituencies, collaborating and advocating on behalf of private giving. They actively seek professional development opportunities through the Council on Foundations, affiliated groups, regional associations of grantmakers, university nonprofit education centers and discussions with like-minded funders. They impart their mastery of family values, their commitment to philanthropy, and their passion for sustaining a civic society. A family manager is viewed as a philanthropist, as opposed to someone just working for a philanthropic family.

There may be no right or wrong way to manage a family foundation. If your foundation is anything like ours, you will no doubt explore many options before finding the right one for you. Think carefully about your management options, choose wisely, and proceed proudly.

As you consider the rewards and potential risks of a family manager, I leave you with this. Recently, a native-Hawaiian grantseeker told me, "Your great-great-grandmother is standing on your shoulders and she is at peace. You being here for her, for us and for tomorrow has brought her great joy. You must be a very happy person." I shall never forget her words. Nor will I forget the intricate set of challenges and opportunities for good my role as a family manager presents. Like many of my family manager peers, this is my life's work-for the rest of my life.