GENERATIONS OF GIVING

Leadership and Continuity in Family Foundations

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INTRODUCTION

This volume is based on a study of family foundations in the United States and Canada that have survived through at least two generations. It uses the histories of thirty such foundations to examine continuity and leadership over time. Our analysis asks questions about why the foundations were started, what they looked like at the beginning, how the families of the founders came to be involved, and how they have organized themselves to do their work from year to year and decade to decade.

The cases are varied. Some foundations are entering their second decade, and others are approaching their second century. Some remain committed to the local communities where they started, and others are funding programs across the country and around the world. Some look very much the same as they did when the founder opened the doors and wrote the first checks to grantees. Others are so changed that the only remaining link to the early years is the foundation name on the letterhead.

But with all of their diversity, they have all had to confront and survive a common set of challenges. They make choices, once a year or every month, to support some requests and deny others. They must manage their assets, and comply with laws and regulations. Most of all, they need people willing to do the work. Some of the tasks are demanding, some are rewarding, and still others are mind–numbing and mundane. Enjoyable or not, the organization depends on their completion.

In that way, family foundations are actually the beneficiaries of two types of gifts. The first, and most obvious, is the gift of funds. Before a

foundation can give, it must receive. Someone, or many "someones," have taken assets that they owned and put them into the foundation's hands. Their fundamental generosity is the irreducible heart of philanthropy.

The second type of gift is equally essential. Whether or not there are paid staff and director compensation, these are primarily voluntary organizations. They depend on individuals willing to give of themselves—to contribute their time, attention, and effort. The longer a family foundation has existed, the more generations and family members have been asked to make that contribution.

This study is about the "why" and the "how" of those two gifts, each essential to the survival of the foundation. We do not need to be reminded of the nobility of private philanthropy. These are exemplary "good works," representing a combination of generosity and social responsibility that makes us feel the best about our society and our future.

But we cannot allow ourselves to focus only on the goodness of foundations. We also need to be clear and objective about the organizations themselves. How are they doing? Where can they improve? Which organizational designs, leadership styles, and governance systems make family foundations most effective, efficient, and rewarding at the different stages of their development?

Finally, we also want to be practical. How can the experience of some be used to improve the plans of others? What concepts and models can we extract from particular cases to guide the future? We must not only appreciate philanthropy, we must increase our understanding so that we do it better. That is the reason for this study, and the purpose for this book.

FAMILY FOUNDATIONS, FAMILY BUSINESSES, AND THE CONCEPT OF SUCCESS

One realization that has helped us understand the unique qualities of family foundations has been the distinction between them and family businesses. While there are many similarities—and often overlaps—between the two types of enterprise, there are also fundamental differences that derive from each organization's ultimate purpose.

The family company, like any business venture, is performance-driven. Success is determined in part by outside forces (the market, manufacturing systems, the overall economy) and is measurable by performance metrics (sales, profit, market share, stock price, equity growth).

In contrast, the foundation is value-driven. It sets its own purpose and, within limits, is the creator of its own criteria of success. There are willing potential grantees for almost any program area. The legal requirements are minimal. It is, in short, hard to "fail" if failure is defined as the involuntary death of the organization.

In a family business the market is the ultimate arbiter of differing strategies, styles, and governance systems. In the foundation, there is no outside arbiter. As long as they comply with the law, families can set their own standards and adopt their own agendas without deferring to outside influences.

For this reason, we have come to the conclusion that the concept of "success" in a family foundation has been severely underexplored in our field, and the discussion has often been looking in the wrong place for answers. Leaders have been striving for years to raise the overall level of performance expectations. It is not easy; the difficulties of tracking impact and evaluating outcomes are well documented.

For many foundations, if the grants are made on time, the required 5 percent distributed, the general guidance of the mission statement or the current interpretation of donor intent complied with, the year was a success. Other foundations put more effort into strategy and planning, and only feel satisfied if they have focused their grantmaking and generated some evidence of impact. Still others are exemplary in their use of program evaluation and benchmarking.

But for family foundations, that is only one part of the issue. Family foundations have other purposes besides program. Based on the case histories in this book, we have come to believe that success must also be measured by the family members' commitment to the foundation's work, the satisfaction they take in doing that work together, and the foundation's ability to evolve and remain vital from one generation to the next. In this sense, a foundation's success will be measured in the eye of every family member.

DEVELOPMENTAL STAGES AND TRANSITIONS
IN FAMILY FOUNDATIONS

One essential factor in this broader view of success in family foundations is time. This research is a study of continuity, but that does not imply a value position on the dilemma of perpetuity versus spending out. There is nothing inherently superior about intergenerational philanthropy or foundations that continue beyond lifetimes and across generations. That is a choice that every family must make. But those who want to remain must cope with the passing of time, and its impact on living systems.

It is easy to see an underlying evolution in families and in all their enterprises—including family foundations—toward more complexity, inclusion, and diversity over time. The life cycle of most institutions resembles an expanding pyramid, from founders to successors and on to larger and larger groups of stakeholders. That was certainly true in general in our sample of foundations. Most of them began with one or two individuals, grew to a somewhat larger group in the second generation, and then gradually involved more and more people from multiple branches and generations.

This evolution is not a gradual expansion, bit by bit, year after year. The important changes tend to be distributed more unevenly. Most models of organizational change now endorse the concept of a "punctuated equilibrium"—moments of dramatic change that mark the transitions between longer periods of relative stability.[1] We found that pattern of evolution in the foundations in this sample.

The transition from the first stage to the second was more dramatic and difficult than expected. At that point, to move to a true family foundation, both the governance structure and the operating processes of the foundation were redesigned. Some foundations prepared for it and spread the work of the change over months and even years. Others avoided even thinking about the departure of the founder until it happened, and then they had to respond. Either way the foundation that emerged was fundamentally different from its earlier form.

Our understanding of equilibrium and evolution in family foundations is enhanced by referring to basic conceptual models, developed from research on family businesses but applicable to foundations

and other family enterprises.[2] When considering the various ways to organize clusters and subgroups within the sample, we thought a lot about the applicability of the principal models for family businesses to these foundation cases,[3] as well as other models for foundation development.[4] Since this was a longitudinal, retrospective study, we concluded that a developmental typology made the most sense.

In the stories of these foundations we found three distinctive types of governance organization. All of the cases fit in one of the three, or were in transition from one to another:

>Controlling Trustee Foundations
>Collaborative Family Foundations
>Family-Governed Staff-Managed Foundations

These types represent loosely defined "stages," because a foundation could start in any one, stay in any one, or move back and forth. Nevertheless, we found a tendency for foundations to begin in the first type and to move at some point to the second, and sometimes to the third, over time. The types were often associated with generations in the family—first (parents) to second (siblings) to third and beyond (cousins)—but not necessarily. Part II of this book includes a detailed description of each type, including the challenges they must meet in order to successfully fulfill their organizational mission in that stage.

TRANSITIONS: CHALLENGE AND OPPORTUNITY

From our studies of the stages of development of family businesses, we have learned that to understand continuity, it is particularly important to focus on the periods of change between stages: the transitions. They are the most critical and challenging moments in the histories of family enterprises.

Transitions in family organizations, including foundations, are not just changes in the people who are in charge, from one generation to the next, although that is often an important part of what is happening. They also mark fundamental changes in the organizations themselves. Transitions are often periods of uncertainty when the decision makers feel most anxious and vulnerable—understandably

so, because that is when the organization makes critical choices that will profoundly shape its future.

By calling attention to the transitions, we do not mean to imply that periods of "stability" within each stage should be taken for granted. The transitions between stages are opportunities for reassessment of the course the foundation is following, and *fundamental change*. The middle of a stage, when the enterprise (in this case, the foundation) is committed to a particular governance structure or organizational design, is the major opportunity for *focus and growth*.

Both change (transition) and growth (stability) are essential for success and continuity, although they require different kinds of work. The tasks of transition periods are exploratory and strategic; the tasks during periods of stability are operational and tactical in nature.

Put another way, during the transition we may consider all options and decide which mountain to climb—often while the army cools its heels in the valley and waits. Then, during the stable period that follows, all our efforts are focused on climbing the chosen peak, without a moment's wasted thought about the other mountains not chosen. Understanding these differences, and the essential alternation of change and stability, is critical for the effective management of a family enterprise over time.

SIX COMPONENTS OF TRANSITIONS

The overall time span of a transition may be a few months or several years, depending on the type of transition and the complexity of the system. But we believe that all transitions from one stage to the next, such as the one from the Controlling Trustee Foundation to the Collaborative Family Foundation, follow the same basic pattern. Our research suggests that there are six distinct components of transitions, beginning with the continuous accumulation of developmental pressures, and ending with the steps to implement a new governance system (see figure I.1).

Preparation: The Accumulation of Developmental Pressures

One metaphor that captures the nature of the forces that propel transitions is the glacier. A glacier, like a family foundation, is a growing, working system—constantly interacting with its environment,
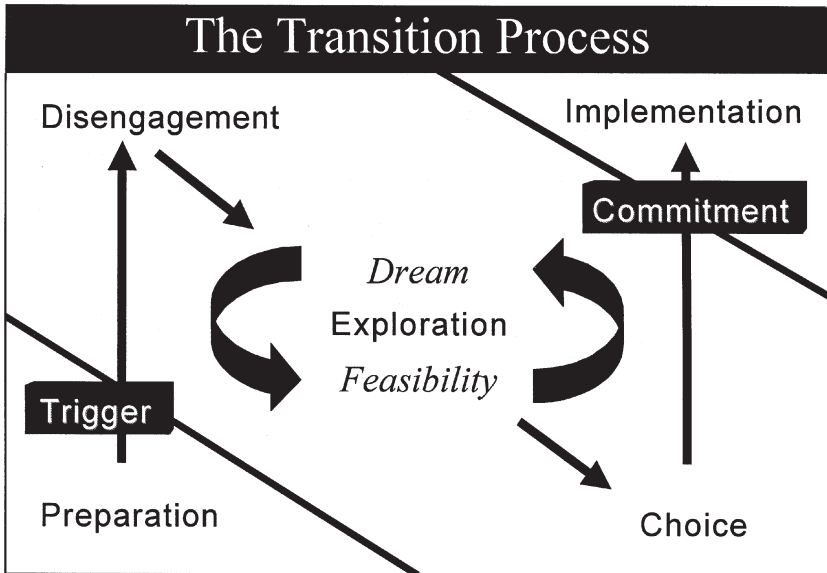
Figure I.1.   The Transition Model

and balancing movement with stability. The forces at work in a gla-cier as it moves across the landscape are powerful and complex, but they are largely invisible. Over time, as the pressure builds in the river of ice, it is preparing for change. Then suddenly, when it has reached a state of "readiness," it may only require a momentary trigger to ini-tiate the calving of huge sections from the edge of the glacier into the sea, giving the glacier itself a new shape.

In the same way, the developmental pressures that accompany families and their foundations are constantly at work—creating the need for, and a readiness for, change. Individuals age, generations and family dynamics evolve, assets grow and shrink, and the environment is continually in flux. Like the glacier, family foundations normally re-sist change for as long as they can, protecting their habits and routines. But sooner or later the pressure to change becomes irresistible. At those moments of "readiness," important changes most often happen in concentrated bursts, initiated by a trigger—one action or event.

The Trigger

The trigger that sets the transition in motion can be either a temporal "alarm" (such as an important birthday), an event (such as a

health crisis or a dramatic conversation), or a change in the environment (new legislation or a shift in the grantee network). It is surprising that the trigger may seem insignificant in itself. This is because, in Shakespearean terms, "the readiness is all." The energy for the change comes from the accumulated developmental pressures in the system; the trigger is just the spark that starts the action.

To return to the metaphor, a glacier can be under such internal pressure that the shout of a tourist from a passing ship can be enough to trigger the splitting off of hundreds of tons of ice. In the family foundation, it can be an event in the life of one of the key leaders, a meeting of the board, or a sudden new perspective by one of the next generation (from attending a conference, reading an article, or talking with a friend), that sets the transition in motion.

Sometimes the senior generation experienced the buildup of pressure to a point of readiness, and as soon as some event triggered them to action they were quickly able to move toward implementing change. In other cases, the younger generation felt much more pressure than their parents, and they needed to wait for the seniors to be "ready." Either way, no trigger can be effective until enough tension has built up in the system, and, conversely, once the system has reached the state where the pressure is unsustainable, almost any trigger will do.

Once the transition has been "triggered," the actual work begins. The change process in transitions is composed of three sequential tasks.

Disengaging

This is the first task, to acknowledge that the era of the old structure is coming to an end, and a new one must be found. In governance transitions, disengagement is often symbolized by a public commitment to a new membership plan for the board, a retirement date for current leaders, or the scheduling of a retreat or a project with a consultant to design the future.

Exploring Alternatives

This is the most critical work of the transition. It involves considering different forms for the new governance structure, and then measuring their viability against the dreams, talents, and capabilities

of the participants. This is a process of testing, learning, and revision. It may happen quickly, or be prolonged over several years. Managing this exploration phase is the most important leadership challenge of transitions.

Transitions are opportunities for change, not guarantees of improvement. Transitions raise anxiety. Many family members and directors may wish for a premature decision. They would like to move directly to "commitment" without spending enough time exploring alternatives and evaluating experience.

Leaders need to avoid the pressures to choose a new structure too early. More than anything, transitions are rare opportunities when it is acceptable to ask difficult questions and to challenge routines. Leaders can increase the chances of long-term success if they open the process to a range of possibilities, test the feasibility of each option, and make decisions based on adequate, reliable data. If a choice is made prematurely, it may not stand the pressure of implementation, and in the end the organization will pay dearly if it has to undo a poor choice and start again to find a better one.

Choosing

At some point, one alternative must be selected and the rest put aside. While this task is often given the most attention, it is actually only one step in the process, and can only be successful if it follows an adequate preparation.

These three tasks may happen quickly and in sequence. Alternatively, some families move back and forth among tasks. They may announce an impending change, but delay exploring alternatives. In those cases the "developmental pressures" continue to build, and since the transition has already been triggered, the force of the pressure is enhanced and the system usually experiences uncomfortable and disruptive stress.

Other families begin to explore a limited set of alternatives, and may even make a preliminary choice, but then become aware of important flaws in the chosen path. This may send them back to the exploration task, casting the net more broadly this time. Whatever the sequence, a successful transition ends with some clear choice, when competing alternatives are put aside, and the system moves to the final transitional stage.

This is the other side to the "premature closure" issue. Exploration of options is essential, but so is ending the exploration and making a decision. Foundations and families do not operate effectively in an environment of unending provisional status. Leaders need to recognize when it is time to bring the transition to a close, and commit the system fully to the chosen future. Choosing and implementing the new governance system signals to the family, the foundation, and the environment that the torch has been passed, and the new era has begun.

Commitment to the New Structure, and Implementation

The choice does not mark the end of the transition, but instead must be solidified with a closing phase of commitment and implementation. At this time, the family foundation formally declares itself ready to operate differently. It involves actually implementing the changes in the structure, and helping (or requiring) the environment to deal with the new system. These tasks often include the withdrawal of the prior leaders from critical roles in operations, important changes in support systems and individuals, and the implementation of new policies and routines. For a moment, immediately after the transition, the new shape of the glacier is in temporary equilibrium. The forces are relieved, and everyone takes a deep breath. And then, the developmental pressures begin again, starting the process over which will ultimately lead to the next transition—perhaps far in the future.

People who find themselves in these transitions often feel like they are in the middle of a circus. This is not far from reality. Things are very complex. But they can be understood and managed in such a way as to make the most of the opportunity for change that is inherent in transitions, and to emerge stronger at the transition's close. In the chapters that follow, we will explore and draw lessons from the varied transition experiences of the foundations that so generously participated in our study.

STRUCTURE OF THIS VOLUME

The remainder of this book uses the model of stages and transitions to present data from the research cases along with conclusions, ob-

servations, and implications for people who care about the future of family foundations. Some sections represent more traditional social science, with graphs, charts, and statistical analysis. Those pages will be reassuring to some readers and irrelevant to others.

We made the decision to include the description of the research design and the analyses in the text where appropriate and to present an expanded review of the data in an appendix. Readers who are interested in the quantitative data can refer to appendix D whenever they seek more detailed information.

Part I (chapters 1 and 2) provides a description of the study and some historical context.

Part II (chapters 3 through 5) presents the primary data from the cases, exploring in detail each of the three typical stages of foundation development and the transitions from one stage to another.

Part III (chapters 6 through 10) explores the four themes that we found most essential to continuity:

mission and dream
family dynamics
organizational structure
successor development

In these chapters we present conclusions from the data and implications that may guide the actions of current and future foundation leaders.

In chapter 10, we step back to speculate on the overall meaning of the results of the study.

We have included as many vignettes and case examples in each chapter as possible. No one tells the story or makes a point as eloquently as the participants themselves. In addition, readers can draw their own conclusions from the situations and points of view of the interviewees. In some cases those conclusions may differ from ours, and that will only enrich the ongoing learning from the study.

Different audiences may want to approach this book in different ways. Colleagues in academia may focus on this as a research report. We have included some citations from the small literature on foundation governance and some of the basic method, although this was not written as a publication for a professional journal. We

would be happy to provide more background to readers who are interested.

Individuals currently involved in foundations, including family members, staff, and advisors, may be interested in both the developmental typology and the chapters presenting themes and tasks. We hope that they will have many moments of recognition as they read the case vignettes, and at least some "A-ha!" responses to the concepts and interpretations.

Kurt Lewin was famous for arguing that "there is nothing so practical as a good theory," and that is our hope—that our perspective will be a useful tool for readers as they address the specific situations of their own foundations. In particular, we would be pleased if our readers find themselves considering the critical questions:

- Did the founder or the present leaders/members consciously choose an appropriate form and articulate the foundation's mission and dream?
- Does the form of the foundation fit the stakeholders' needs and the family's purpose today?
- Do the structure, leadership, governance, systems, and processes of the foundation fit with the family dynamics in a mutually constructive way?
- Is the organization capable of preparing for the inevitable transitions of the future?
- What individual choices and behaviors can enhance both the foundation and the family's experience—in periods of stability and during transitions?

These are difficult questions, and readers looking for clear answers may be frustrated—as are the authors. We wish the challenges these foundations face lent themselves more easily to *solutions.* Instead we can present *options* and, at best, lessons from the experience of other foundations that have traveled the same path. For today's foundations, raising and addressing the questions is a courageous first step.

Finally, we hope that readers who are considering establishing a foundation will use this book to anticipate possible paths for your charitable future, and to help you decide whether the private family foundation is, in fact, the best vehicle for your philanthropy and your family. We suggest that you use this book more as a reference than a

recipe. If you note the themes, you can return to them as they emerge in your foundation's development.

Today's founders and donors are starting on a new path. It remains to be seen how much they can improve on the experience of the past century, how much they can learn from the successes and mistakes of their predecessors, and how they will respond to the changing realities of the world of resources that they represent and the world of need that they serve. Perhaps someday in the near future, social scientists will aggregate and analyze their experience as we have done with their parents' and grandparents' efforts. Then we will all be able to see how far we have come.

NOTES

1. See Tushman, Newman, and Romanelli (1986); Nadler and Tushman (1989); and, in particular, Gersick (1991).

2. An earlier version and a fuller description of this model can be found in K. Gersick et al. (1999). It is also developed further in Murray (2003).

3. See K. Gersick et al. (1997) and I. Lansberg (1999).

4. Remmer (2000), and Gersick et al. (1990).