GENERATIONS OF GIVING

Leadership and Continuity in Family Foundations

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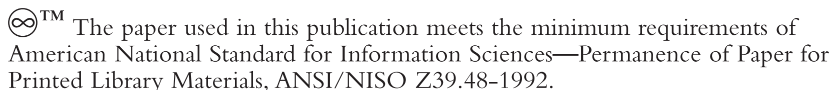

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CHOICES AND CHALLENGES FOR THE CONTROLLING TRUSTEE FOUNDATION

Nearly all of the foundations in our study started under the control of a single trustee. A few retained the Controlling Trustee form into the second generation and beyond, some more successfully than others. Since many of these foundations were formed in the first half of the 1900s, they were by definition pioneers, with few models to imitate. Therefore, their design and operations say a great deal about the imagination, personalities, goals, and skills of their founders.

At best, the Controlling Trustee Foundations provided a simple, low-cost organization though which families made significant contributions to society during the original donors' lifetime and, in some cases, for several generations afterwards. Historically, as it is today, these personal, individual donors are the "main army" of private philanthropy, and by sheer numbers their foundations overwhelm all other types. But as organizations they have drawbacks. Many were not thoughtfully designed at the start, and then expanded without a plan. At worst, some foundations became family battlegrounds, unable to move beyond a mission and a structure that no longer held meaning for many family members.

We found that the difference, to a large extent, stemmed from the founders' clarity and self-awareness about their personal philanthropic "dreams," and the degree of congruence between those dreams and the structure and procedures of the foundations they created. We can infer these dreams from what they told others about their motivation or purpose in establishing the foundation, the degree to which they included family members and future generations,

the governance procedures they designed, and their skill in articulating a mission. Most importantly, as the stories of these foundations unfold over the decades, we saw how the founders' earliest decisions echoed throughout their lifespan to the present day.

THE MADISON FAMILY FOUNDATION

Peter Madison, a successful businessman widowed in his mid-fifties, began to feel ambivalent about the wealth he had created. Making it was fun, and he took pride both in his extraordinary financial success and the style, values, and reputation he engendered. The business success came at a price in his family, however. He felt positively toward his children, now grown into adults, but he didn't know them very well. They seemed to have absorbed or inherited some of his most valued characteristics: high standards for performance, high energy, and some skepticism about money as a panacea.

On the other hand, they continued to make choices—in spouses, lifestyle, politics, and career—that baffled and sometimes offended him. To some extent his offspring had all pulled away dramatically as they became adults, which he experienced as both a disappointment and a reproach.

On the advice of his attorney, Peter decided that a possible solution to his dilemmas was to start a foundation. He wanted to "walk the talk" about values and personal commitment. He had for a long time been a contributor to the local hospital and to medical research in general. For tax reasons, he could benefit from a more organized approach. He had his attorney draw up incorporation papers for his family foundation, "for the purpose of supporting cutting-edge medical research and maintaining top-quality medical service facilities throughout the metropolitan area."

He sent a packet to each of his children inviting them to join him in creating the foundation, asking them to match his $2 million endowment with a pledge of $50,000 each, representing 10 percent of their annual trust income. He also asked his children to pledge an additional $25,000 each year, and he expected to make a major additional contribution from his estate at his death. His children agreed to the proposal.

His semiretired status at the business allowed him plenty of time to meet with doctors and hospital administrators and to attend conferences, presentations, and lunches with worthy academics and practitioners in the health field. In a brief time the foundation became known as a significant resource, supporting groundbreaking research. Twice a year he distributed a notebook of the grants that the foundation had made, with vivid descriptions of the grantee programs and facilities. Then he and his children met for lunch to go over his grants and decide whether to award discretionary funds to a few new proposals. But when Peter repeatedly asked the children what they thought, they had little to say besides general support for the program areas.

After five years of this, very little had changed in the family. Peter wanted family involvement, but was not ready to share authority. His two oldest daughters had been as different as possible since they were infants, and they took opposite positions on every initiative proposed to the foundation. The sons were similarly different, except that the youngest one had very little interest in the foundation at all.

The meetings were enjoyable one-third of the time, passively quiet one-third, and openly rancorous the remaining third. Consensus was rarely reached, a problem that Peter addressed by making increasingly large continuing or capital campaign grants so that there was actually less and less discretionary money at issue each year. When a surge in the stock market led to a sudden need to double disbursements, the younger generation siblings were unable to reach any agreement after two lengthy meetings, so Peter put the new money directly into a trust fund for the local hospital.

Peter alternately encouraged attendance and "speaking up" among the offspring, and challenged their lack of preparation and fuzzy thinking. His oldest daughter, always his closest ally, began to help out in the foundation office as a volunteer after her divorce. She ended up doing most of the support staff functions and replaced her father at some external board meetings and donor functions. As Peter has withdrawn, the balance of influence and activity has begun to change slightly as the second generation has become more assertive. Still, there has never been any discussion of continuity or governance after their father's death.

This story, like many others, demonstrates the early phase of a foundation that had not yet quite found itself, although it was doing useful work and providing real help to grantees. The founder wanted to be charitable, to make a difference, and he wanted his family to join him. But his vision of how it would work was vague. He knew what he wanted to do, he knew what he hoped his children would think and feel and contribute, but he didn't know how to make it happen. His success in achieving his philanthropic goals has come at the expense of much of his family vision—at least so far.

Why has it worked out that way, and what else could Peter and his children have done?

For the Madison Foundation and for all of the others in our sample, the choices made at the very beginning proved critical. We begin with a discussion of some of the general characteristics of the founders, and then follow with a more specific analysis of the Controlling Trustee form of family foundation.

FOUNDERS AND DONORS

Why do families start foundations? Actually, for the most part, they don't. Families rarely start foundations *as families*. Individuals, or couples, start foundations. If the concept of a family foundation exists at all in the mind of a founder (and in our sample it existed only about half the time), it is—as in Peter Madison's case—a vague image of intentions, hopes, and assumptions. The transition to a family foundation in practice occurs later.

We did not select the sample based on the characteristics of founders;[1] we did not even know who the founders were until the group was complete. However, the group does parallel the "later-in-life" profile of the classic entrepreneurs of the twentieth century (Carland et al. 1984). A few were under forty, a few were over seventy, and most were in middle age (see figure 3.1).

They were overwhelmingly male. Most of the founders were married. The role of the spouses ranged from absolutely none to true partnerships. In six cases, the primary founder was a businessman who had been routinely charitable on a small scale, but his wife wanted to be more active. (We have no cases where a woman was the

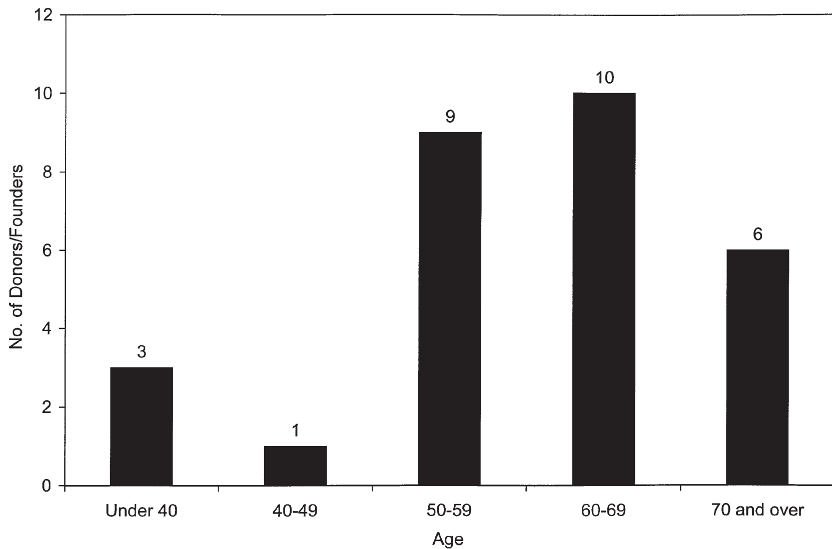

Figure 3.1. Age of Primary Donor/Founder

primary wealth generator. There are two cases where the primary donor, of inherited wealth, was a woman, and in both cases it was her husband who was the Controlling Trustee from the start.)

In another two cases the foundation was created specifically to honor and support the wife's work, and it was assumed that she would be actively involved in the grantmaking. In seven other cases, the wife was a donor or passive trustee, but took no role in the foundation's activities. None of this is surprising, given the typical gender roles relating to business of any kind in the United States in the middle of the last century. However, in the terms of the dominant culture of that time, it does emphasize that the foundation was most often born in the "business" (man's) sphere, not the "home" or "family" (woman's) sphere.

Nearly all of the founders were business owners. Some of them represented the second or third generation in their family business, but the majority were entrepreneurs and business developers in their own right. They came from a range of religious backgrounds, but they were all white.[2] They covered the entire political spectrum, from radical social-change-oriented liberals to extreme conservatives. Some are remembered as wonderful men. Others were apparently

unpleasant, cold, or nasty; the best their families can do is to acknowledge their success and their ultimate charitable actions.

FOUNDERS' MOTIVATIONS

We asked all respondents to comment on the founders' motivations,[3] and to give us evidence if they could remember anything in particular. Some of their stories are very specific. Most are vague. This is secondhand information, not self-reports of the founders themselves, so it can only be suggestive. Three broad categories stand out in these descriptions: financial incentives (mostly tax minimization), philanthropic agendas, and family closeness (figure 3.2).[4] They follow directly from the three historical themes discussed in chapter 2, but in this chapter we will address them in the order of importance as reasons cited for establishing a foundation.

Taxes

Minimizing taxes was the single most commonly identified primary reason that these foundations were started. In almost every case,

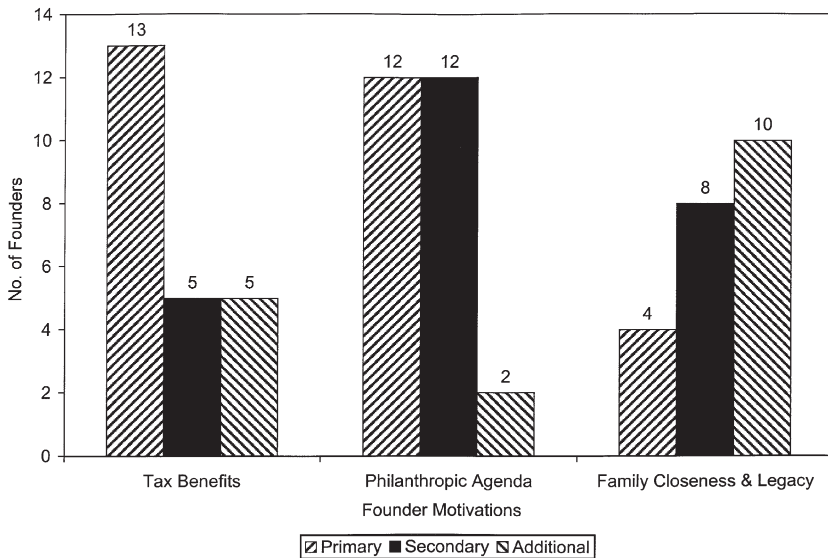

Figure 3.2. Founder Motivations

someone brought it to the attention of the founder that a foundation would be an efficient way to use before-tax dollars for charity. The most common source of the idea was not a family member, but a business advisor. In the majority of the cases, an accountant or attorney appears to have been the first one to suggest organizing charitable activities into a foundation. Some of the founders had always been willing to pay their share of taxes but decided it would be foolish not to take advantage of this incentive in tax law. In other cases, the descendants specifically describe the donor's purpose as: "They just didn't want to give the government *any* of their money."

Philanthropic Agenda

As the respondents remember it, in this sample the motivation to enact a set of philanthropic values was equally as important as tax benefits. That does not mean that these founders were all active philanthropists. The philanthropic history of these founders is mixed (figure 3.3).

In about one-third of the thirty cases, philanthropy had been a central part of the founders' lives before the creation of the foundation, and in another third the families report that the founders had

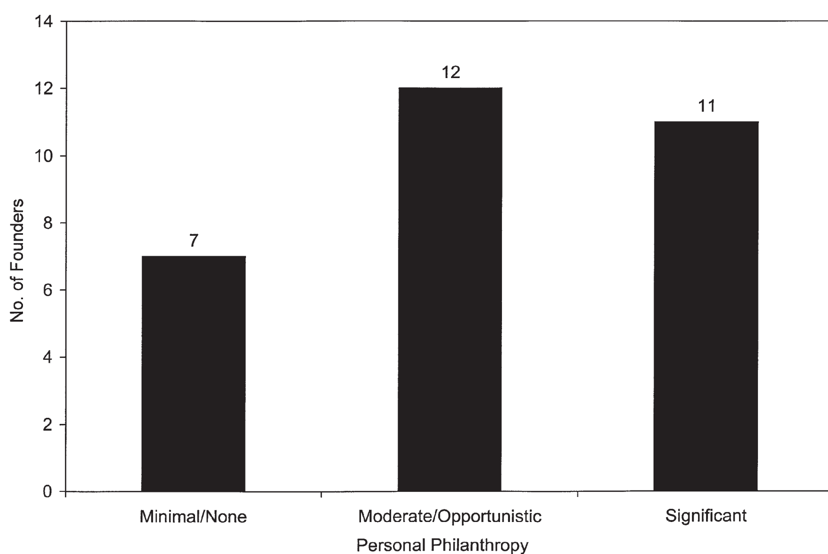

Figure 3.3. Previous Personal Philanthropy

been making moderate charitable contributions for a long time before the foundation was begun. Family members tell stories about grandmothers who dispensed cash at the back door to the wives of needy employees, or executives who kept a checkbook in their drawers to respond to requests from workers, who felt free to "drop in" on the president with a request. As their enterprises were more successful, they gave away more.

For some of these long-time philanthropists, establishing the foundation was a legal technicality, barely noticed in the family. They went on doing what they already were doing, with a different letterhead.

Kathryn and Arthur Antrim had extensive stock holdings from the sale of family businesses. They were "opportunistically" charitable, responding to requests from friends and associates. Their attorney suggested a foundation as a tax-advantaged organizing structure, in response to recent changes in income tax rates. While they included their two children and two advisors as directors in order to comply with legal requirements, the others never attended meetings or participated for the thirty years until the death of the donors. Throughout all those years the couple continued to disburse funds to traditional grantees, primarily unchanged year after year, with an occasional new grant if something piqued their interest.

In other cases, the formal creation of the foundation was remembered more distinctly, and fits the definition of a transition as described in the developmental model on pages 4 to 10. Often it took place after some turning point or "trigger" in the founder's life: retirement, illness, reaching a significant birthday, or the death of a spouse or child. Sometimes the foundation was specifically linked to a lost relative, or created in honor of a particular purpose or cause. In these cases, the start of the foundation represented a new decision to get serious about something that had always been important but informal.

There are many examples in the sample: A prominent business leader had long been well known as a prime contributor to all the major institutions in his city: hospitals, universities, social service agencies and general funds. The foundation was suggested by his tax attorney at their review of his estate plan, triggered by his sixtieth

birthday. Likewise, a successful venture capitalist was stimulated to form the foundation by a health crisis. He had been informally charitable throughout his adult life. Following surgery, he was forced to cut back on his involvement in work. The foundation became his primary activity for the last decade of his life.

In seven foundations where the descendants identify philanthropic values as one of the founder's motivations, there was no personal or family history of charitable giving before the foundation was created. In these cases the donor seems to have come to a realization later in life that he had more resources than he could spend, or more than he thought would be good to leave to offspring. However, the practice of organized philanthropy—concept, mission, policies, priorities, and governance—had to be developed after the foundation already existed, and sometimes after the donor was gone.

Like many entrepreneurs, Sam Yates had been up and down financially several times in his career. He was smart, an intellectual, and involved in the community although not known as a philanthropist. When his fortunes turned up late in his life, he created the foundation at the advice of his attorney and closest friend, as a way to generate a presence and a stature in the community.

There were six cases where the founder had a specific philanthropic purpose in mind, rather than a general philanthropic value. These foundations were created to meet a particular need. When that need was fulfilled—sometimes during the donor's life, and sometimes after—the organization needed to start over and choose for the first time a mission that had a more distant horizon. (Of course, they could have spent out, but none of them chose that option.)

Family

The third reason suggested by descendants as the founders' motivation relates to family relationships and interaction. As interpreted by the current family, these donors wanted to instill the value of philanthropy in their children, and they wanted to encourage—or require—their offspring to implement that value together. Family members remember or imagine that these donors had elaborate "philanthropic

dreams"—a fairly clear vision of the entire future family seated around a table (at least metaphorically), dispersing grants and bonding together as a result.

For most of the cases where family togetherness was described as an additional or secondary motivation to the financial and philanthropic agendas, it is talked about in a positive way in the interviews. In those cases the current family describe the value of nurturing family interaction as a given, in the past and in the present.

However, in other cases, it is more complicated. These founders who are described as motivated *primarily* by family goals were not among those with the highest levels of previous philanthropy before establishing the foundation. In addition, with a few exceptions, their descendants do not describe their families as particularly close. In fact, many of them seem to be compensating for concerns or regrets about a lack of family cohesiveness or powerful philanthropic values. Most surprisingly, they also were no more likely to actually include offspring in their original boards, or to be more collaborative in the grantmaking process during the early years of the foundation.

This creates a complicated paradox. When founders had an agenda—whether explicit or unspoken and assumed—to keep the family together through the foundation, they seem to have been uncertain, or ambivalent, about how to implement it. Many of these founders were strong, opinionated parents who ran their businesses with a firm authoritarian hand. Some of them clearly felt that they missed the opportunity to be more directly involved with their children, like Peter Madison in the first story in this chapter. They saw philanthropy as one place where everyone should be able to work together, because there was no personal financial gain at stake, and the work has an inherent moral quality to it.

However, these families were not skilled or experienced at collaboration, and the idea of sharing control was not easy for the parents. They also discovered that competition for status, authority, and recognition can be just as strong in the family dynamics of philanthropy as in the business or any other aspect of family life. The generous underpinning of the foundation's work does not in itself make the family any more able to act collaboratively or generously toward each other.

What resulted in many cases was a "disconnect" between the founders' imagination of family inclusion and the way the foundation

itself was structured or, more frequently, the way it operated. Family members were invited to meetings, but not expected to say much. There was no demand that they prepare, or develop skills.

In some cases the offspring were young, but in most cases they were already adults. They were accustomed to being excluded from any detailed knowledge about their parents' work (except for the few who were being groomed as successors in the family business). In fact, they might not have even been aware that the foundation existed, or been any more familiar with its operation than they were with any aspects of the family enterprise. These second generation offspring remember an invitation to participate, without a clear idea about what was actually being offered. To refuse would have been insulting and ungrateful, so they complied without asking too many questions.

As the operations of these foundations took shape, the consequences of the ambivalence became more and more disruptive. As we will discuss later, particularly in chapter 7, the foundations that the family perceive as having been created with a "family dynamics" agenda have, in fact, some of the most complicated family dynamics in the generations that follow.

In the Madison Family Foundation we described at the beginning of this chapter, the second-generation siblings speculate that their father's desire in creating the trust, aside from taxes, had something to do with keeping the family together. They describe his motive as similar to that of many entrepreneurs who, late in life, try to recapture some of the family life they never had time for, and repair some of the damage done. "He sincerely wanted us to love each other and stay together. The trouble is that he knows only one way to relate to the family: by controlling us. While he has changed in recent years, enough of the control freak lingers to dampen our enthusiasm for working together."

Multiple Donors under a Controlling Trustee

We were surprised to find that, in about half of the cases, the foundation was begun with contributions from more than one donor. This includes married couples (11), parent-child combinations

(3), and extended family or family-and-company combinations (3). The married couple donors fall about evenly into a subgroup where the spouse was a silent donor, and a second subgroup where the spouses were both actively involved in the grantmaking. Both types of spousal involvement are discussed in more detail on pages 71–74.

In most of the parent-offspring combinations the offspring were invited to join in philanthropy as "donors," but not really as "founders." The younger generation experienced the call to contribute as an obligation—in fact, a payment in return for inheritance. Perhaps only through hindsight, they express little or no resentment. On the other hand, with little authority over the foundation's philanthropic activities, they felt equally little commitment. The endowment was like a tax.

For example, five offspring agreed to make an initial contribution and to commit annual funds from irrevocable trusts, created for each of them by their father when they were young. "What was our motivation? Because Dad wanted it." Their father agrees, saying that all five "were cooperative in that." In a similar case, the senior couple made 70 percent of the grants. Each of the three children contributed and controlled 10 percent, but their decisions required board approval.

Sometimes the family company joined the parents and offspring as a donor. The children contributed funds but did not expect to have any discretionary authority in the organization. Discretion over grantmaking was very specific, in keeping with the strict business protocols of the founders.

The Wyndford Foundation was created by a brilliant, exuberant entrepreneur. The initial donors were the founder and the Wyndford Corporation. Soon afterward, the company made a public offering, while remaining under family control. At that point many family members and the company began regular gifting of stock to the foundation. The large family business was the employer of all male members of the second and third generation, so the founder required all members of the first and second generations to donate 1 percent of their annual income to the foundation.

The founder's three brothers, along with some corporate officers, came and went as board members—but in name only. They met occasionally as a formality. The foundation continued to fund creative

and cutting-edge programs, all initiated by the founder and implemented through his social and business community.

In a few similar cases, it was not a parent but one sibling who invited brothers, sisters, and sometimes a parent to join in creating the foundation. In all of these cases, there was a clearly identifiable "lead donor" who acted as controlling trustee.

Seven years after succeeding his father as president of the family company, John Volino invited his sister, brother, and widowed mother to join him in setting up a foundation. Each donor contributed some of his or her family business shares to create an endowment. Using the company lawyer as a fifth trustee and manager of the fund, John made annual gifts to their church and a few local charities. Once a year he called his siblings to tell them what the foundation was going to do that year. If his sister had a small request, he tried to honor it as well. Otherwise, the other three donors were silent. For seventeen years their foundation was a few-days-a-year activity, run out of John Volino's office.

In other multiple-donor foundations, the rights of discretion over grantmaking seemed to be in flux, possibly suggesting the early signs of a transition:

The Bell House Foundation has been run very informally—one might say casually—from the start. Although the second-generation have donated to it steadily, the first-generation founder was the sole signer of the trust document and remains the dominant influence, claiming the right to allocate 60 percent of annual outlays to projects he favors, since he contributed that percentage of the endowment. His offspring and codonors have always acquiesced to his preferences—even beyond a 60–40 split—but in recent years have been more assertive in defending their own prerogatives as donors.

Our general finding regarding multiple donors is that there was usually a lead founder, often the individual who was responsible for generating wealth for the family at large, or at least the designated steward of that wealth in his generation. The invitation to the other initial donors is experienced, at least in part, as an obligation. In

most cases, but not all, the lead donor retained a Controlling Trustee authority—sometimes sharing discretion in proportion with the other donors, sometimes not.[5]

Childless Founders

Our sample includes four donors who established family foundations although they had no offspring of their own. Here our data is more speculative; the current successors of these donor/founders are more tentative in suggesting the donors' motivations for philanthropy, compared with the other cases where we spoke with children and grandchildren in a direct line. It makes sense that childless individuals who amass significant wealth would consider philanthropy. They do not have heirs who are depending on inheritances as a nest egg or to support their lifestyle.

Childless founders have few family options other than to involve nephews and nieces as successors, but it is interesting to speculate on their reasons for establishing a *family* foundation in the first place, beyond their desire to put wealth to good use and to avoid taxes. The descendants make some assumptions about these donors' family motivations. They portray the founders as looking for a way to get some of the rewards of parenting through nurturing the extended family, sometimes with the added edge of competing with their own siblings and demonstrating that there are other markers of a life's accomplishments besides having children. None of these childless uncles and aunts left significant inheritances directly to their extended-family heirs. This suggests that the foundations were a middle-ground solution for them. They could involve their extended family in their wealth, without overstepping an implicit boundary and treating them like offspring.

The niece of one childless founder had a very positive analysis of her uncle's motivation, and even more appreciation of the unintended result. "Uncle Bob was shrewd enough to realize that the foundation would be a way to carry on his name forever. He didn't want to give his money to the government, and he didn't want to give it to us, but he wanted us to remember who he was, so this was the perfect solution.

"He also told us, 'Don't stay together; that always leads to fights.' After all, we weren't his children, and he didn't care if we kept unified. So this has worked out contrary to his wishes, and it has been the best thing possible. Whether he wanted to or not, through his efforts he has given us the privilege of being charitable—for which he deserves recognition—and he has kept us all together, for which we are very grateful."

Whatever the motivations of these childless donors, they did not discuss them with their successors during their lifetimes. In none of these cases did the donor fully explain why the foundation existed, or what he expected of the extended family who were his successors. Perhaps as a result, the second generation in all four of these cases expressed more than the usual level of uncertainty about their obligations to the founder. Consequently, the early years after the death of a childless donor invariably entailed "starting from scratch" for the next generation of trustees and directors.

THE TRANSITION TO A FORMAL FOUNDATION

The transition model helps us understand the meaning of the creation of a formal foundation in these families. In about one-third of the cases, the founding was a nonevent—a mechanical action for tax reasons, usually initiated and carried out by a professional advisor. In these cases the organization of the foundation received little attention at the beginning. The issues of mission and operations and involvement were left to a later time. These cases still have the essential questions of founding—Why does this organization exist, and who cares enough to sustain it?—in front of them.

In another half of the cases, establishing the foundation marked an important transition in the life of the donor. In those examples, the pressures of wealth, tax policy, aging, social reputation and social responsibility, and family evolution were building in the donors. At some point, a trigger stimulated the donor's response of organizing philanthropy. It may have been an environmental change, a personal crisis, or the intervention of an outsider, such as an advisor or a friend. The foundation was the action that resulted.

Nevertheless, most of these founders stumbled when it came to the main components of the transition. The tasks of exploration and commitment to an appropriate model were often short-changed. These are the cases of personal organized philanthropy, effective and meaningful, but incomplete.

There was typically a vague dream of family involvement which was not fully articulated. The options for philanthropy were not explored. The structure and procedures of the organization were left to the attorneys' boilerplate. Rules, expectations, and processes for involving others, especially offspring, were not thought through, and almost never worked out jointly. Faced with this unfamiliar world of formalized philanthropy, the founders fell back on old patterns.

These are the foundations that faced a significant second transition at the end of the donor's life or early in the second generation's tenure. The success of that second transition, to collaborative family philanthropy, determined the success of the foundation.

Finally, there was a small group of families that fully engaged in a transition to collaborative philanthropy at the beginning of the foundation. They anticipated continuity and explored a range of designs and missions. They used the early years of the foundation to test out different ways to operate and to share authority. Those foundations set in motion the process of evolution from the beginning. All of the foundations in this sample got to their "moment of reckoning" about collaborative continuity sooner or later—but these few cases had a head start, as we will see in chapter 4.

THE CRITICAL EARLY DECISIONS

In the sections that follow, we will explore the earliest decisions made by founders in our sample as they established their foundations, and the effects of those decisions on the generations that followed. Not surprisingly, *control* appears as a major theme in these founders' critical choices.

Funding and Control

Current trustees and directors are remarkably unclear about the sources of the original funds. It appears that only about one-third of

the foundations were endowed at the beginning. Even for those, the original endowments were very modest, ranging from a few thousand dollars to a few million dollars, with a very few larger endowments. Seventeen of the foundations began primarily as pass-through systems. They were funded annually by personal gifts or corporate contributions, to cover the outlays. In some of the trust structures, the dividend income from stocks deposited in the trust was available for grantmaking, although the endowment itself was not in the foundation.

The endowments were built slowly over years, with spikes of growth at the death of family members or the sale of family companies. Tax law revisions that required the liquidation of family business stock in some cases led to sudden growth, or even multiplication, of foundation portfolios. Periods of great stock market advances, especially in the last quarter of the 1900s, also changed most of these foundations from small to moderate, or moderate to very large.

This early dependence on annual contributions is more than an accounting factor for these organizations. It underscores their lack of organizational independence. Effective organizational governance requires that the leaders and policymakers have control over the organization's finances. When the level of funding each year was determined by the founder, it underscored the personal definition of the foundation operation. Any impetus toward long-term vision or mission, strategic grantmaking, or even negotiated priorities within a governance group was limited by the uncertainty about funding level and the dependence on the individual judgment of the founder. This issue is related to the distinction between donors and founders, mentioned above. When the founder continues to exercise the role of donor over and over, year after year, the foundation is more likely to remain a personal charity.

Original Structure and Control

Ten of the foundations started as trusts. Twenty began as corporations. We looked carefully at the implications of whether the original governing structure was a trustee or directors group, and found little of consequence. Both forms are evenly spread across the decades. Trusts are slightly more likely to include nonfamily trustees at the start than corporations are to include nonfamily directors, but the difference is not significant. In this sample the legal structure

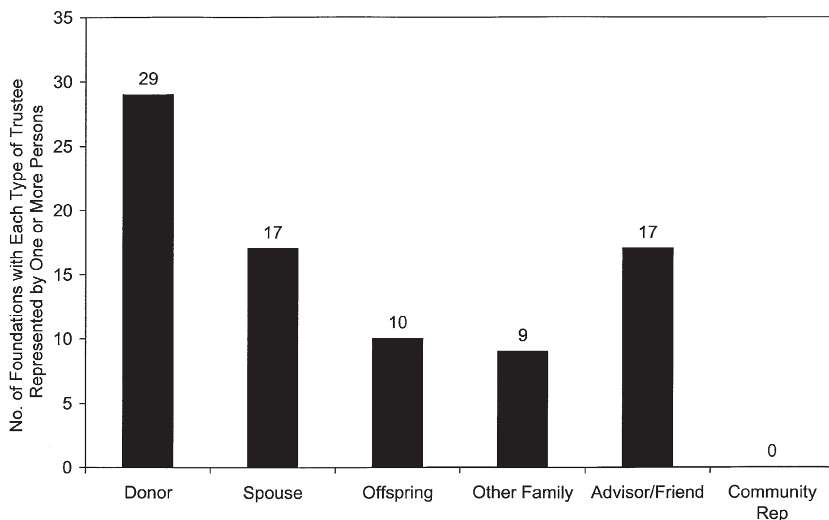

Figure 3.4. Original Trustee/Director Categories

seems to be a function of the fashion of the time, the specific tax advantages of one form or the other, or the preferences of the legal advisors who did the paperwork.

The makeup of the original board or trustee group is presented in figure 3.4.

Spouses of the founder are included in about half of the cases. At least one offspring is included in one-third, and the same percentage have some other family members. The distribution of spouses is interesting. In seven cases, the spouse was the only family member joining the founder. Several of these were true marital partnerships, with a close collaboration between the partners. On the other hand, there are also eight cases where the spouse is not included, but offspring or other family members are.

Seven of the foundations did not include any other family besides the donor on the original board. Those seven were the most clear personal philanthropic vehicles for the donor. The other named directors in those cases were business associates or financial advisors, always as support or in name only, never with truly shared power. None of our sample actually began as full community-involved foundations, with strong nonfamily directors.

Overall, seventeen of the thirty foundations had at least one nonfamily director on the original board. In every case these outside directors were close family associates, not independent community representatives. In nine of the cases, the outside directors were directly involved in the family business. In another eight cases, it was an accountant, attorney, banker, or some other professional with a history of working for the family.

In many cases, these advisors—usually an attorney, sometimes a financial advisor—were personally connected and loyal to the founder (and often the spouse), and had little contact with the rest of the family. This was particularly true in the five cases where the board was exclusively the founder and the nonfamily directors, and there was no other family involved. Even when the family were present in a subordinated role, the family trustees recall the feeling that the nonfamily directors thought of them as "pro forma" participants—present because the founder wanted them there, but essentially irrelevant.

A granddaughter of the founder remembers her initiation into the foundation as difficult at the beginning because of the challenging style of her business-focused uncles and, particularly, the family attorney. He had been a close personal advisor to the founder and was instrumental in setting up the foundation, and he had been a director since the beginning. "We were intimidated from speaking out by the lawyer. He was always cutting down others' ideas. It was as if he couldn't get away from being an adversarial lawyer. He just didn't understand about bringing family members together and encouraging participation."

It is interesting to conjecture about the founders' reasons for including these outsiders. This is one area where the descendents did not have much to say in the interviews. In the cases where the foundation was seen as a business enterprise, it could be that the outside professionals were assumed to have more business sense or experience. They would keep things operating according to rules, budgets, laws, and other constraints. In other cases, it seems that the outsiders were recruited to be referees. The founder was worried about sitting around a table with relatives. Perhaps they thought that the family would be better behaved if a "stranger" were in the room.

A few nonfamily original directors played a very different role. They were the founder's proxy in authority. The founder relied on their leadership and decision making during his tenure. In addition, in three cases they became the senior voice for at least an interim period when the founder withdrew. The outside directors can extend the Controlling Trustee era of the foundation, even beyond the donor's death.

The founder started the foundation at age sixty, with a business associate and a distant relative as passive cotrustees. When he died twenty-five years later, the two remaining trustees continued exactly the same funding pattern for another twenty-five years. The nonfamily trustee was very explicit in deferring any changes as "not what the founder intended." The second generation only became active at the death of the nonfamily trustee.

Overall, these original outside directors provided services, they fit the founder's imagined model, they kept the lid on family process, or they provided a link with the business, but they did not set much of a precedent of community involvement or independent input. The issue of nonfamily directors returns in later generations, but in a very different context, as we shall see in chapters 4 and 5.

Governance Processes

The structure of these initial boards is important, but it can also be misleading. The key issue is not who is named in the legal documents, but what role each individual played in the foundation's work. Participation does not, in itself, mean collaborative governance. That is, being on a team is not the same thing as competently playing a team game.

While there were many particular variations in governance process, we found that governance in the Controlling Trustee period could be broken down into three main types: The Controlling Trustee Alone, Controlling Trustee and Spouse, and Controlling Trustee and Family Partner. In every case, the individual control of these founder/donors was truly astounding. In fact, in practice there was not much "governance" at all in the beginning. Most of the

foundations had only one board meeting per year; the rest had two. Twenty-eight of the thirty had no staff. The grantmaking support was provided by family business employees or personal assistants in about two-thirds of the cases, and by professional advisors in the other third. We have already noted that few had articulated missions. (A typical set of incorporation papers presents the purpose as "to provide a tax efficient and orderly system for their personal philanthropic activities.") These foundations were informal, minimally organized vehicles for personal giving.

TYPE 1: CONTROLLING TRUSTEE ALONE (OR SUPPORTED BY PROFESSIONAL ASSOCIATES OR ADVISORS)

In these seventeen cases, the donor/founder operated the foundation for the most part individually. There may be other named trustees or directors (usually dominated by business associates or employees, sometimes with one or more family members in name only). Nevertheless, there was no significant sharing of involvement, discretion, or control.

A donor established the foundation late in his life, to honor his recently deceased wife. There was no stated mission, no meetings, and no grantmaking process. Business associates handled the minimal paperwork. The founder wrote checks at the end of each year, usually in the range of $25,000 to $50,000, to traditional agencies and umbrella funds.

Sometimes the very personality traits that made founders so successful in entrepreneurship and wealth generation are the most complicated in the early governance of their foundations.

Edward George ("E. G.") Quigley had a forty-year reign as the rather autocratic leader of this foundation and only began to share grantmaking with his sons when he became ill at the age of eighty-five. The second generation did not have a full shot at leadership, as E. G. remained a presence for another five years until he died. By the time of his death, they had begun the transition to the third generation.

All the interviewees described E. G. as vibrant, strong, attractive, and magnetic with a forceful, and at times erratic, will. In general, his sons commented positively on his good qualities, but also made it clear that, in their eyes, he was a difficult, ornery character as well. The sons are quick to remember his capricious decisions, such as disinheriting them, and giving the beautiful family home and furnishings to charity without consulting them.

He started the foundation for several reasons: to create a place to deposit a large chunk of corporate stock for tax reasons; as a way of handling requests for contributions (since "he was constantly being hit up for dollars from everyone"); and a desire to help the little guy and contribute to the community.

E. G. ran the operation single-handedly. He contributed family business stock to the foundation and then just gave away money. There was no staff. He selected a number of nonfamily directors, all from the family business, "to keep the family in line, since they all knew what he wanted." Three of them went on to serve for thirty to fifty years. As his son remembers it, "Father ran it like an entrepreneur, as he saw fit. He had a board only because the law said he needed to. My role was just a 'yes man'—and in fact everyone just nodded at the meetings and said fine."

This type includes the cases where the founder is clearly in control of the foundation, but invites or requires other family members (usually spouse and/or children) to be present and sometimes to make financial contributions. The message, whether explicit or implicit, is that the others are there to observe and learn, not to voice opinions.

A close associate and lawyer for this fourth-generation business owner suggested the idea of a foundation in the late 1940s following changes in the tax laws. The founder had always been very generous and civic minded. He had supported many causes and projects in the company's home town. As his daughter remembers, "My father just called in my brother, sister and mother and told them to come to the meeting and to bring $2,000. (He gave us the money for that purpose.)

"He said, 'If I can give money away and get a tax credit at the same time, this is best for everyone.' And then, he just told us about the foundation." They met three times a year, in very businesslike

meetings ("Roberts Rules of Order and everything"). The lawyer for the company did legal work; the secretary of the company did the clerical work. As a result, the foundation had no operating expenses.

When asked how they felt about their involvement at the time, the son and heir to the business said, "I thought it was great," and his sister added, "I was on the board, I approved of everything, of course! My brother and sister did too—we all went with father's suggestions."

Not every Controlling Trustee went to such lengths to create a sense of camaraderie:

One nonfamily executive described the founder's response as the next generation began to speak up at meetings. "I've given you my proposal. All those in favor, say 'Aye.' All those opposed, say 'I resign.'"

TYPE 2: CONTROLLING TRUSTEE WITH AN ACTIVE SPOUSE

This was the second most common form of early governance, apparent in six cases. Most often, the husband and wife both contributed funds, either in the form of stock or cash or by designating income from holdings to be diverted to the foundation. The level of partnership varied from one active/one mostly silent, to a more equal partnership. Sometimes the children or business associates were named as trustees or directors, but in these cases they have no voice and usually did not attend meetings. Sometimes the founders managed the paperwork of the foundation themselves. In other cases, a family advisor, personal secretary, or someone from the family business provided support and clerical functions. None of these foundations had dedicated staff at this time.

Both of these spouses had significant inherited wealth from family businesses, but neither was active in those companies. They got the idea to set up a foundation from seeing the work of some foundation-supported community agencies and cultural institutions. There was no statement of mission or purpose. Two family office employees and two offspring joined the couple on the board. The meetings were held in the couple's living room, "whenever the founder thought they needed

one. The father made all the decisions, the lawyer took notes, and their sons, if they attended at all, were not expected to say anything. Everybody knew this was [the founder's] foundation and he did what he wanted."

Even in the foundations where the spouse played an important role, it was mostly regarding programs and individual grants, not in overall governance. The particular interests of spouses were taken into account in granting priorities in nearly half the cases. However, there are no indications in most of the stories that spouses are also equal, or even active, participants in decisions about the appropriate size of the endowment or its management, supervising support staff, continuity planning, or policies and procedures.

In both of these two types, the founders exercised remarkable individual control. These foundations were not mission-driven but rather "discretion-driven," and the presence of other family members or outside directors did not constrain that control at all. There was little rancor or challenge. In fact, the offspring who were present were remarkably disinterested. And that seems to have been fine with the founders.

TYPE 3: CONTROLLING TRUSTEE WITH A FAMILY "PARTNER"

There were a total of seven cases that involved some form of significant shared leadership from the beginning. Four of them were father/son or uncle/nephew partnerships. They all grew out of family business working relationships. The philanthropic work was well integrated into the family's overall financial interdependence.

This father and son partnership was active in all aspects of their family enterprise, including several businesses and the foundation that they started together. They put together an endowment from family business stock, gifts from the parents, and income from several trusts. Originally the wife of the senior founder was also included, but she was never active, and after five years she resigned in favor of her daughter-in-law, who played a more involved role. The management

of the foundation, the family's investments, and the businesses was a seamless structure of father/son collaboration. Grantmaking was very ad hoc: "We're sending you a check. We'll call in a few weeks to decide what it is for." As assets were sold or restructured, the pair assigned proceeds to the foundation or distributed them to other noninvolved offspring. When the father died after twenty years, the second generation couple continued in an uninterrupted way, and began to involve their children.

Another father and son team designed the foundation together when the father was given a short time to live by his doctors. They saw it as an extension of their personal charitable work. The only mission was to support "worthy causes" in the geographic areas of their family businesses, and to keep the foundation's overhead costs very low. The founders did everything themselves. Although the son said he wanted his own children to be donors to the foundation and to be involved in philanthropy, he never included them in the foundation's work during his lifetime.

A father and only son, who worked together closely in the family business, started the foundation to honor their ties to the community. For fifteen years until the father's death, the foundation was run out of the President's office, managed by a series of corporate secretaries. Father and son made decisions together, informally, once per year. The father's brother-in-law was a silent, mostly absent third trustee.

Looking ahead to the transition to the second generation, there were two interesting consequences of this type of early history. In these cases where there is a two-generation founder partnership, the younger founder always maintained the Controlling Trustee form after his parent's death. Even when the second generation siblings were equal inheritors of the family business and personally close with the foundation leader, the one who had been the father's partner in the foundation did not transform it into a collaborative sibling-governed organization at the father's death, but rather replicated the senior founder's personal control.

This is in contrast to the cases that were individually controlled by a parent alone or the parents together, with only a passive role for

any offspring in the first stage. Those were much more likely to change into a collaborative sibling system when the parents withdrew.

But the design of that later change was also affected by the pattern of sibling involvement in the Controlling Trustee foundation. If the first board included two generations—even if the offspring were not invited into active collaboration—it matters greatly whether all of the offspring were included or only some.

If all the second generation were included from the beginning or joined as they each reached a predetermined age, it sets a precedent of equal access and leads to later governance representation by branch. In future generations there is a very strong tendency to have equal numbers of trustees from the descendant pool of each second-generation sibling. This remains true in third and fourth generations even as the branches grow to very different sizes, with some moving completely away from the original locale.

On the other hand, if only some of the second generation were included, then the representation rules are less tied to "silos" of family branches later on. Other criteria besides equity can be used for the third and later generations.

Family Foundations and Other Family Enterprises

One aspect of family foundations that has not received the attention it deserves is the place of the foundation within the broader family enterprise. As a new field, the study of family philanthropy has naturally focused on the foundation as a stand-alone. It is clear from our sample that this is rarely the case. Twenty-four of the thirty foundations were created to stand alongside an operating family business. Many of them were household names in manufacturing, consumer products and services, and retail business. Thirteen of those families still have other business interests in common.

The grantmaking programs of nearly a third of the foundations were very closely linked to active family businesses at the beginning. Their primary purposes were community development, business public relations, and "giving back" to the populations that provided labor, services, and a home base for the business.

There was usually a business advisor or colleague instrumental in the formation of these foundations, sometimes on the board,

sometimes acting as a staff director. The other family members involved in these cases were also leaders in the business. During this early stage, these foundations were handled as business and public relations operations. The grantmaking process was set up to maximize efficiency. Meetings were minimized. Reporting was essential, but only to the degree that it pushed the "bottom line" performance of the organization.

Sometimes the business and the foundation merged in their role in the community. Especially in the twelve cases where the family business was a major employer in its hometown, the foundation can be seen as just one arm of the company's and the family's expression of social responsibility.

This family company was one of the most visible manufacturers in its small town. It was considered a great place to work; employees stayed for a lifetime. The second-generation leader was described as a very soft-spoken guy who connected with everyone in the business, walking the shop floors, greeting all 500 employees by name and asking with accuracy about their children.

The current nonfamily directors easily tell stories about the company and the foundation interchangeably, pointing out that this family was well known, well respected, and had done a lot for their community and state. The foundation was formalized in the late 1960s because "it was the right thing to do," and it continued an informal style of responding to identified community needs as they arose.

The longtime administrative secretary said, "The early grantmaking was to collect letters that had been sent, and when the pile got too high they would say, 'We better look at these,' and then they would sit down and write checks." This style has persisted, even as they have turned grantmaking operations over to a professional director.

In another situation, the foundation was established as a set of trusts, each funded with company stock. The board was composed of a mix of family and company trustees. But, for over forty-five years, this "family" foundation was managed by corporate executives as a community and public relations effort. "The meetings lasted 1/2 hour per year, just to sign papers. We had no mission, no specific programs. We just added up the grants to equal the funds available and we were

done." The system was forced to change when the company was sold. At that point, a third-generation successor consolidated the trusts into one foundation, created an all-family board and, after sixty years, a genuine family foundation was born.

Even when a "family business" is a sole proprietorship or an individual entrepreneurship, the foundation can replicate the business design and style and emulate the same business philosophy. In a few cases it was evident that the foundation was another opportunity for the founder to be an entrepreneur. This resulted in a kind of philanthropic venture capital fund.

Since the founder was an investment manager rather than an institution builder, the foundation followed the same model: pick projects carefully but cast your net widely, look for great ideas that have the potential to be self-sustaining, do not foster dependency. As a result the foundation does not have a central programmatic theme, but more of a philosophy of this "investment" style of philanthropy. This has proven hard to transfer across generations, since it was based on such a strong reliance on the individual judgment and entrepreneurial discretion of the founder.

As these "business integrated" foundations grew, the taken-for-granted lack of a boundary between the company and the foundation began to be more problematic. Sooner or later there was always some uncertainty about the appropriate roles for family members and for company managers in grantmaking. Demands on staff time for portfolio management, legal compliance, writing checks, public appearances, and record keeping sometimes brought the issue to a head. Usually the family was happy to benefit from the "free" service that company employees could provide. As long as the founder was leading both systems, the potential conflicts rarely surfaced. However, the lack of distinction created very interesting challenges for the family when the founder withdrew, or when the business was sold.

In addition, as the foundations grew they emerged as a significant alternative system for involvement in many of these families. That raised all kinds of "human resource" questions: Who serves in the business (by invitation or demand), and who serves in the foun-

dation? In large, complex family enterprises, what is the authority relationship among the operating business(es), the holding company, the family office, the trustees, the senior generation, and the foundation? What happens when the public identities of the business and the foundation are in conflict? Can they have different investment policies, or political ideologies, or social networks? These dilemmas reemerge more clearly at the later stage of the transition to the Collaborative Family Foundation, and will be addressed again in chapters 4 and 5.

Grantmaking Style

Only six of the foundations had a specific goal or purpose from the very beginning: two to build a particular institution, two to support a particular church, and two to meet a specific local community need. Another six had a general mission statement or some overall guidelines for the grantmaking program. For the remaining eighteen, there was either no mission statement at all or a statement so general that it provided no guidance on program or priorities. For example: "To enrich the quality of life in [...] through grants to registered charitable organizations"; "To provide a heritage of giving to charitable causes for [the founders] and their issue"; "To create a vehicle to carry on the tradition of giving of [the founders]"; or "To provide money to deal with the pressing needs of institutions engaged in activities of particular interest to the members of the [...] family." A successful businessman saw a problem, a community need, a disease, a gap in institutional services, or a political agenda worth supporting, and applied dollars to the solution.

A husband donated some of his corporate stock to a foundation with the sole purpose of building a library to house his wife's extensive collection of art books and works. The library became a significant cultural resource for the city and the local university.

The style of grantmaking at the beginning was clearly reflected in the resources available for program research and follow-up. It appears that only three of the foundations had paid staff from the beginning. It is difficult to be sure, because the living respondents aren't always sure

who paid the salaries of the secretaries and administrators who managed the details of the early grantmaking.

In most of the cases where the donor was running a business at the time, the secretaries, managers, and occasionally the financial officers of the company did the necessary support work. It is unlikely that their salaries were apportioned between the company and the foundation, but there is no way to know from this data. The rest had family members or an outside professional volunteering to complete the foundation's work.

The lack of dedicated staff support, even in those foundations that began with sizable endowments or annual giving programs, adds to the picture of these young organizations. That is, they were not really organizations at all. They were activities—serious and consequential, but not formally structured. Their articles of incorporation or bylaws were perfunctory, boilerplate, and almost never read. They had no space of their own and no infrastructure. Their boards operated only on paper. Most of them did not have annual budgets at all. The founders kept an informal record of their commitments, and they made annual contributions to the foundation sufficient to cover the outlays.

In the twelve foundations that had some form of endowment, only in seven was it large enough so that the proceeds from the investments were sufficient to support the grantmaking. In all the other cases, the donor supplemented the income with direct contributions, either of personal funds or of dividends paid directly from company stock.

However, the lack of organizational structure and resources did not, by any means, preclude significant grantmaking accomplishments. Nearly all of these founders were personally involved philanthropists. *They felt little need for formal structure to accomplish their philanthropic purposes.*

Even while observing the lack of structure, it is very important to keep in mind that, year after year, funds were distributed and grants were made. There is not much detail available in the family records of the early recipients of grants. Surprisingly, most of the foundations said they did not have records of recipients until very recent decades. But the current participants have good memories of the early grantmaking.

"Our grandfather did not put his mission into writing; he acted on it." He continued his efforts to foster the education of minorities, particu-

larly blacks. "Having suffered discrimination as a Jew, he was sensitive to discrimination against other groups." Other cousins described a co-founder as "a powerhouse in correcting social injustices." They supported minority education in numerous ways, some institutional (such as funding scholarships and hiring a prestigious consulting group to help a local college create a strategic plan and find a strong executive) and some personal (they taught night courses themselves).

They were creative individuals in their own business, and creative in their philanthropy (they were the first to fund a program to provide free legal services to Mexican Americans in rural areas of their region). And sometimes the giving was very personal. "Our grandmother demanded contributions of money and old clothes from all the family. Then she distributed them from the back porch."

Not all the cases were as hands-on in their patterns of giving. As suggested by other writers on historical philanthropy, the initial foundation grantmaking was weighted toward institutional rather than programmatic grants. There was very strong support for traditional recipients: colleges and universities, medical and health services organizations, and local arts institutions.

A few specifically prohibited grants to religious organizations, but seven others concentrated a significant part of their grantmaking on one religious group or church. About half were completely reactive, responding to requests as they came in. Most of the others had a consistent program of institutional support, rarely varying from year to year. Only three of the foundations were "programmatic" in their grantmaking from the beginning, initiating new program ideas with local agencies, integrating related grants, or working actively with social entrepreneurs to create fundable programs.

The primary restrictions were geographic, which was consistent throughout the lives of these foundations. A comparison with current

Table 3.1. Grantmaking Restrictions

	Grantmaking Restrictions				
	None	*Geographic*	*Program*	*Grantee Type*	*Term/Size of Grant*
At Founding	5	18	8	3	1
Current	0	19	21	7	5

policies shows that the foundations have in general become much more self-limiting over time. (Table 3.1 compares grantmaking restrictions at founding with those currently.)

One area where the performance in this early stage was most underdeveloped was in program evaluation and follow-up. Only a small number of foundations did any outcome assessment at all. In some cases the family told stories about well-intentioned but misguided grants that had become part of the foundation's ongoing mythology.

A donor was in the habit of responding immediately to perceived needs in his community. At one point while out on a drive he noticed a church needing roof repair. He contacted the cleric in charge and made a gratefully received contribution for the roof. Then, year after year, the same check was sent to the church. Finally after a decade the new minister came to call, saying that the roof had long since been repaired and they had not been soliciting contributions for many years.

THE LONG-TERM IMPACT OF FOUNDERS' EARLY DECISIONS

One of the most important and surprising characteristics of the Controlling Trustee stage of foundation development is how long it lasts—an average of twenty-seven years. In twenty-five cases the founder/donor led the foundation for more than a decade; in fifteen cases, for thirty years or more. This creates an extremely powerful imprint on the foundation.

The Controlling Trustee model can even extend well beyond the lifetime of the donor/founders. In five of the cases, a second-generation Controlling Trustee took over the foundation and ran it with nearly the same degree of personal autonomy as the founder. We discuss this style more fully in the next chapter in the section on Delayed Transition to a Collaborative Family Foundation.

Grantmakers versus Institution-Builders

The most prevalent story is very consistent across these cases. A successful business leader, sometimes with the input of his spouse, had

been opportunistically charitable for many years. At the advice of a financial advisor, he created a foundation. There was no mission statement. If the donor's style was to be very businesslike and formal, with written rules and procedures, then the foundation was probably created in that style. If the donor was more of an entrepreneur, acting impulsively or at least spontaneously, then the foundation was run the same informal way.

For half of these donor/founders, the foundation was not seen as an organization with an agenda and needs of its own, it was only "a thing we do." The activity itself was the focus of their attention. The organizational setting was only a mechanical necessity. They didn't worry about governance, bylaws, or policies—they wanted to distribute charitable dollars. Some opted to do it alone, some wanted their spouses or children to be present, at least as observers if not "limited partners," and some went back and forth between wanting unfettered control and shared commitment. Either way, it was the actual dispersals that they cared about.

The other half had a more "organization-building" perspective. They liked the idea of the foundation as an institution. They wanted it to have an identity beyond themselves, so they paid more attention to structure, rules, and formal authority. They deliberated about whom to involve and on what terms. They had a dream about the organization's future, even if it was not well thought through or ever discussed with potential successors. They typically expected that some day responsibility for the foundation would be passed to one or a group of the offspring.

Sometimes they expected that the designated successor would be determined by primogeniture, or that the business leader would take on the foundation as part of the package. Sometimes they expected a compensating or balancing assignment, for a sibling not taking over the company. In a few cases there was a consideration of who seemed to be more personally philanthropic, or to have the time or inclination to run the foundation. But resolving these considerations into a specific succession plan was left for a later time.

What both the "grantmakers" and the "institution-builders" had in common was little interest in conceptualizing or discussing a *governance model:* a system for exercising control in the organization. That is, like most entrepreneurial organizations, very few of these

Controlling Trustee foundations thought about building an infrastructure that would be viable in the future. They attended to the legal requirements, and sometimes obsessed about procedures and rules, but in this stage their considerations were all focused on operational smoothness. They did not link organizational design and process to future unknowns: how the siblings will work together, the prerogatives of leadership, the mechanics of representation, the role of spouses, the entry of the next generation, the operational implications of their own estate plans, or the professional staffing needs of the future organization.

While providing clarity about who was in charge in the early years, this informal, personal process built an organizational culture that creates real challenges for continuity. The Controlling Trustee's discretion is very clear, which reduces conflict but also does nothing to develop a capacity for collaboration. In the language of our developmental model, these Controlling Trustees neglected to prepare their organizations and their successors for a transition to the next stage.

THE DEVELOPMENTAL CHALLENGE: WHO DEFINES THE ORGANIZATION?

The founders' initial stance on the distribution of authority and the exercise of control has a profound effect on foundation governance in later stages. Understanding this issue requires understanding the founder himself, and returning to the discussion of motivations for establishing a foundation.

What kind of person creates great personal wealth in the first place?[6] Hard working, entrepreneurial, intelligent, fortunate?

Having generated wealth, a person must make some choices about what to do with it. If the alternative of spending it all personally is not attractive, then there are three "streams of disbursement" to choose from. You can give it directly to heirs, and then it is up to them whether they will spend it or steward it and pass it on in turn to their own children. You can return significant portions of your wealth to the public through taxes. Or you can give it directly to others who have a need for it.

Taxes and philanthropy have similarities as ways to redistribute surplus wealth. Taxes, after all, are a form of public charity. They are contributions from personal holdings to a common fund, out of which a board of directors—in this case, elected officials—make programmatic expenditures.

The difference is that in private philanthropy the donor determines who the recipients will be, while in the public charity of taxation, the donors' control over the grantmaking program is so diluted as to be nonexistent. In fact, the grantees themselves (the public) control the process, since they elect the board (the legislatures).[7]

Many descendants describe their wealth-generating predecessors as hating taxes not because they were stingy, but because they resented not having any say in the use of their contributions. From a distance, the overall flow of resources in taxation and philanthropy is remarkably similar. The difference is *control*.

Therefore, of the three options available to a person of wealth for distributing surplus resources—bequests to heirs, taxes, or philanthropy—*charitable giving, and particularly establishing a foundation, is the one that offers the highest level of ongoing personal control by the donor.*[8] These philanthropic wealthy are motivated to do something useful and instrumental with their assets. They believe that they know what needs to be done. And they believe that they have a right to do it, because they earned the money.

If this view of founders' motivations is correct, it makes sense that they would be reluctant to create truly collaborative, authority-sharing governance systems at the start. The foundation gives them control over the implementation of their philanthropic agenda. For some, that is all that the foundation needs to do.

It is more complicated for those who want to personally control the grantmaking but also to involve the family in the process. Many of them believe that they can accomplish both goals by offering *access* without sharing *control*. Whether through coercion or generosity, a desire to model values or to demand them, a wish to be close or an unease with closeness, the typical outcome is the same: "This is what I → we → you are going to do with this resource."

The system colludes in supporting the right of donors to dictate. Technically, there is no obligation. By law the directors or trustees control the organization. Clearly the endowment is not the

donor's; it is the foundation's (and, as we discuss below, the public's, at least for the percentage that would otherwise have gone to taxes). Why do foundations implicitly agree to let donors control grant-making?

Several hypotheses come to mind:

1. One impulse that causes trustees to let donors control comes from deep within the family hierarchy. Because the donor *could* have put the money elsewhere, or kept it, or spent it, many family members act as if he still has it. In particular, offspring who are self-consciously aware of their potential inheritance are extremely reluctant to voice any opinion that makes them appear greedy, overeager, or interested in prematurely separating their parents from their money or their control over it.
2. Focusing on the donor's prerogatives is easily described as a constraint, but it also can be a reassuring refuge. If you are simply continuing a dispersal pattern initiated by the founder, unless something outrageous happens you don't have to worry, "Is this money well spent? Are we getting the greatest return for our investment? Are these grantees the best providers of the service we care about? Is the public interest well served by this program?" However, that interpretation is increasingly being challenged, even in family businesses, as an abdication of governance responsibility. Contemporary organizational thought is not sympathetic toward boards of directors who declare, "Whatever the shareholders and management want to do is the right thing to do—our responsibility is only to enable."
3. Professionals in philanthropy rarely challenge the basic concept of donor control. They are concerned, perhaps rightly, that the incentive toward philanthropy depends upon the donors' expectation that they have the right to shape the organization's purpose, and that that right will be protected in perpetuity. They worry that if the norm shifts so that donors no longer have unilateral rights to govern their foundations, there would be little incentive to start one. However, that is an untested assumption. In fact, it may be that creating foundations dominated by donor control discourages and drives away more philanthropic impulse in families than it nurtures, particularly among later-generation potential donors.

Most of the study participants felt that concentration of control was not a problem while the donor was alive and active (or at least in the early tenure of the foundation). The problem is that this initial implicit agreement to let the donor be in control becomes a template for later phases. When the organization's governance system is not given responsibility and authority in the organization at the beginning, it is hard to start to do things "by the book" later. The game instead becomes "who inherits the donor's right to control?"—even though that right never actually existed. Battles are fought over who sits in The Chair, or who sits at the table, or who has a more direct understanding of "donor intent."

The echoes of this early deference are felt very strongly as the foundation matures, even long after the donor has departed and the foundation becomes endowed. Throughout their lifecycles some foundations struggle with their sense of "whose money is it?"

Those who focus on the donor's contribution, whether annual or in a lump sum, are emphasizing the ownership aspect of private property: that is, the donor owned resources and "put" them in a foundation as a place where they could be used. In their minds, some strand of ownership remains with that donor. The donor/founders amassed (or inherited) the money, it was theirs, this is what they voluntarily chose to do with it, and the moral (if not actual) right to determine its use remains with them forever. This perspective can be so strong that it even obscures the cases where there were multiple financial donors.

For these "donor-focused" individuals or families, the right of the donor to determine the activities of the foundation is active in perpetuity, and sometimes is a deeply felt emotional commitment. They do not just disagree, they are deeply offended by efforts of others to reshape or modify the donor's agenda.

In contrast, other individuals or families are "organizationally focused." For them, it is the foundation's money. The donor gave it to the foundation, and from the day those papers are signed it does not belong to him or her anymore. The economic as well as the ethical "thread of ownership" is terminated. The foundation has its own authority structure, and it is not only the organizational leaders' legal right to decide what to do with it, it is their moral right—and duty—as well.

With this perspective, it doesn't make any difference whether there was one donor or 100, or whether the donations happened at one time in the past or continue. The donors were (are) the sources of the funds, but their control ends at the moment they write the check to the foundation. Semantically, these donors do not "put" their money in the foundation, they "give" their money to the foundation, so that it is not theirs anymore. As current leaders and participants change, so may some aspects of the foundation, without regard to the originators.

One powerful and often overlooked fact in this dilemma between "donor-focused" and "organizationally focused" views is that there are always at least two donors in a foundation. When an individual donor creates a charitable foundation, he always has a partner: the general public. For every dollar contributed by a donor to an endowment, the public makes a codonor contribution in tax abatement (since 1917, at least). For those foundations begun at certain times in the middle 1900s, the public's contribution nearly matched the family's.

This point of view complicates the donor-focused perspective that it is "the donor's money, put to use." In fact, the most conservative view of donor intent, arguing that donors have the right to determine the uses of the foundation's disbursements in perpetuity, should also be the strongest defenders of the rights of the "public" codonor as well, demanding accountability and community representation as trustees and directors. It is the "organizationally focused" individuals who should make the argument that the foundation can set its own agenda without regard to any donor, private or public.

There is, of course, a middle ground between the donor-focused and organizationally focused views. In this case the donor is looked to for inspiration, not control. While change is embraced, the organization recognizes that reinventing itself with every change of leadership or every new member on the board of trustees is not feasible. A core mission and a legacy of purpose is not just honoring the past, it is a good operational strategy. In choosing among the unlimited array of possible self-definitions, these foundations look to the donor for guidance, and in about half the cases it is there to be found in some form. Then the key challenge becomes: What agenda can we find that encompasses the values and passion of both the founders and the current enactors?

So the primary risk that the initial donor control creates for continuity in the foundation is that it complicates the development of an empowered governance process. Those Controlling Trustees who treated the structure, the bylaws, and the board's oversight responsibility as pro forma and meaningless at the beginning made it harder for legitimate authority to arise later. As we will see in the discussion of the Collaborative Family Foundation in the next chapter, making the transition from individual control to collective authority needs to resolve these difficult issues.

CORE DILEMMA: FOUNDER'S PURPOSE VERSUS FAMILY DREAM

The central lesson from the Controlling Trustee stage of foundation history is that every founder or group of founders has to make a fundamental choice. They can establish a foundation that is primarily intended to achieve a particular consequence in the world, or one that is primarily intended to create a particular process in the family.

Founders of the first type say, "I have generated wealth beyond my needs, and I want to put it to charitable use. There are issues or needs that I care about, or obligations that I intend to fulfill, and the foundation will do that in the name of all of us. Follow me, and we will make a real difference."

Founders of the second type convey a somewhat different message: "I have generated wealth beyond my needs, and I want our family to use that as an opportunity to demonstrate shared values and work together. Few of us may be involved in business together, but all of us can participate in philanthropy, and it will be what keeps us connected in the future. Join this effort, and we will all shape its future together."

In the first case, the founder offers a legacy of impact; in the second, a legacy of opportunity. Either choice is completely defensible as an honorable effort and a responsible utilization of wealth. But the paths of institutional development are very different in the two cases.

When founders choose the former—a vehicle for the expression of their personal philanthropic agenda—they should focus on clarifying the mission, formalizing the structure, and seeking successors to

continue the work after they are gone. They need to be honest about their intention to control the organizational purpose, and not use coercion or guilt to require participation by those who do not share their priorities. If they cannot find any takers to perpetuate that particular agenda, then they should spend out or turn the foundation into a fund and let others manage it. This is a fine and underutilized solution for donors who have a clear idea of the foundation's best purpose and worry about it being corrupted by future boards.

If, on the other hand, they have the second goal—to create an opportunity for their family of descendants to work together on an ongoing philanthropic task—then their efforts are better spent on building an infrastructure that makes possible broad participation by family members, an education program that focuses on helping each individual discover the potential and meaning of philanthropy in her or his own life, and a process that maximizes flexibility, diversity, and the continuous reinvention of the foundation. They may be dominant during the early years, but from the beginning they have to offer more than access—they have to share control, and allow potential successors to be partners in charting the foundation's course. That is a difficult stretch for most of these donor/founders.[9]

It is only through looking at the experiences of these foundations over time that the importance of this core dilemma becomes clear. This is a choice, and the cost of ignoring it can be high, especially beyond the second generation. When the founder unilaterally determined the purpose of the foundation but at the same time also assumed perpetuity, sooner or later there was typically a slide into passivity, obligatory participation, and a loss of vitality. In this sample, all of these foundations continued, and some found a path to satisfying collaboration on their own, but it would have made the road to success easier if the donors had been more clear on how they saw the foundation's future, and what they were offering to those who they hoped would take it there.

Finally, while this is a fundamental choice, it is not cast in stone. Many founders want both personal discretion and the enthusiastic involvement of other family members. They ask, "Why not control the foundation during my lifetime, set guidelines for the future, and allow some flexibility after I am gone?" There are families that make this work, but it requires sensitive and very honest planning.

It is difficult to mandate one process in the present, but promise a different one in the future. Trying to exert unilateral control but expect enthusiastic commitment underestimates two costs: the problem of the patterns and habits that result from years of powerlessness, and the problem of the "dead hand" of the past governing the future. Foundations where the offspring and extended family are not empowered for many years, and where mission is constrained by the traditions or rules of the founder, may struggle for generations to form an identity other than the founder's work.

Founders who want to have personal control during their lifetimes but do not expect to retain it after they are gone can do their followers a great service if they make that intention clear and help the system prepare to implement it. Founders and Controlling Trustees can be more open and precise about their own purpose, motivations and style, while offering explicit permission to "reinvent" the foundation when control passes from their personal hands into the collaborative family system.

The explicit permission is crucial; otherwise following generations will be trapped in endless arguments about interpreting donor intent. It requires courageous consideration of each policy and procedure in terms of whether it serves the Controlling Trustee agenda of the present, or the Collaborative Family agenda of the future. And it must include preparation for successors that is meaningful and respectful of their personal interests, even if those conflict with the founder's. Founders who engage the next generations in this way have the opportunity to "eat their cake and have it too," while enhancing the chances for foundation continuity.

NOTES

1. In this research we tried to maintain a distinction between "founders" and "donors." Interviewees sometimes used these terms interchangeably, but they are not the same. We use the term founder to designate the individuals who initiate the creation of the foundation as an organization. They cause the trust or the corporation to be designed and to begin operations. Donors contribute funds. Most often the word donor is used to describe the source of the original funds, but anyone who adds to the endowment of the foundation is a donor.

2. We would have preferred a racially diverse sample, but the population of foundations in non-Caucasian families that met the other criteria of age and continuity

was very small. Only one appeared in our pool at all, and they declined our invitation to participate.

3. When exploring the earliest period in the history of these foundations, we are relying for the most part on the memories or imagination of current participants about the behavior and thoughts of parents, grandparents, and beyond. (Our sample did include four founders who are still involved in their foundations. Their own reconstructions of the past may be more or less reliable than the observations of others.)

4. See also Nielsen (1985).

5. There were a few cases where the multiple donors were in fact partners from the beginning. These were predominately cases where donors were working in a family business together and created the foundation as a cross between family and corporate philanthropy. These examples will be discussed in chapter 4.

6. Andreoni (1998, 2001) has done some of the best empirical work on motivations, tax incentives, and control needs in wealthy individuals.

7. You can make the argument that one way to increase personal control over public funds is to use wealth to influence public policy, through lobbying and political contributions. It would be naïve to ignore these widespread practices, but that does not change the comparison between taxpaying and philanthropy. Creating a foundation, and taking advantage of tax deductions for wealth distributed through it, is one of the most significant means for maintaining personal discretion over funds that otherwise would pass into legislative control.

8. Within the "inheritance" option, the counterpart to donor-directed philanthropy is a trust. Trust law allows settlers to exercise remarkable control over inheritors. While it is outside the scope of this project, it would make a very interesting research to correlate the levels of restrictiveness of trust documents and foundation charters.

9. An example, stated humorously, of the ambivalence of this approach, not from this sample but from the well-known actor, Alan Alda. "From the beginning, we've been on an equal footing with [our children]. Everyone has an equal vote. Arlene and I as founders don't have any greater influence just because we gave the money in the first place. We don't even have any moral advantage in an argument. It's maddeningly democratic. One person, one damn vote" (Alda 1996).