# GENERATIONS OF GIVING

## *Leadership and Continuity in Family Foundations*

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# THE FAMILY-GOVERNED STAFF-MANAGED FOUNDATION

What happens when the operational needs of the foundation exceed the resources of the family? Some of the families in this sample were confronted with this dilemma in two ways. Either the work got too large, or the family got too small—or both.

Grantmaking done well is very labor intensive. Many grants require hours of proposal review, making contact with the applicant, deliberation, budgeting, site visits, administration, and follow-up. Add to that the demands of endowment management, record keeping, compliance with all laws and regulations, public relations, learning about new program areas, and general administration, and the requirements are significant.

Even the most dedicated families have limited time to spend on philanthropy. In many cases in this sample, it was not only the expansion of the work that strained the limits of the foundation's infrastructure, but the decrease in availability of family resources. Small families or branches that die out, other philanthropic vehicles, disinterest, reductions in personal wealth, and particularly geographic dispersal in the successor generations can leave them feeling unable to meet the management demands of excellent grantmaking. As a result, they may consider a different model of family philanthropy that permits, or requires, outside professional help.

Nine of the cases we studied have evolved into what we are defining as the third type of family foundation: a Family-Governed Staff-Managed Foundation. In essence, this form places the responsibility for *grantmaking* activities in the hands of nonfamily professional staff, while the *governance* responsibilities remain with family directors or trustees. The characteristics of this category include:

- A senior nonfamily staff executive
- Family directors or trustees responsible for general oversight and final approval, policy, mission, and strategy
- Nonfamily staff responsible for proposal review, report generating, docket creation, grantee relations, site visits, and program evaluation
- Endowment management by nonfamily professionals
- Some level of staff hierarchy, with senior executives supervising line staff and responsible to the board

Families choose this form for several reasons. Sometimes they want to bring new and different resources to their philanthropic dream. Sometimes they are overwhelmed by the demands of mandated dispersals. Sometimes the family's aspirations for research, comprehensive knowledge about program areas, and follow-up are simply beyond their capacity. They may come to believe that turning these tasks over to nonfamily staff will provide relief from the relentless day-to-day work of quality grantmaking, while retaining the commitment and satisfaction of supporting worthy endeavors.

There is certainly evidence that a seasoned and sensitive professional management team can help a family learn to improve its skills in both grantmaking and governance. This is especially true in situations where the successors lack adequate preparation for their roles. As they get better at the work, they take more pleasure in their philanthropy.

But this choice does not appear equally attractive to all individuals and families. Some families take such pleasure from the nuts-and-bolts practice of philanthropy that they have no interest in hiring others to do it for them. Others have more than enough family resources to cover the work of a foundation that has remained small or medium sized. Finally, some of the families in this sample were not motivated to take on ambitious, strategic, program-driven grantmaking. They had confidence in their traditional patterns of giving, kept the process very simple even as the mandated dispersals increased, and felt able to be both conscientious and collaborative without hiring nonfamily managers.

On the other hand, a few families were struggling to keep up with their foundations' work, and although they admitted enjoying it less, they still did not want to consider a significant investment in staff. For them, a Family-Governed Staff-Managed Foundation raised the negative image of unsupportable cost increases coupled with a loss of control over the direction of the foundation. In these cases, any suggestion of expanding the role of staff met with resistance and resentment. Sometimes these families were able to maintain high quality grantmaking by raising their own efforts, and sometimes they were not.

The families who successfully explored evolving into the staff-managed form were able to put aside stereotypes and assumptions and deal with the realities of their collective dream and their resources. For about a third of our sample, in that moment of self-reflection they discovered that what they really wanted was not only to add nonfamily employees, but to change the role of the family in the foundation. As we have seen in the two previous chapters, as the pressures on the current structure build, meaningful continuity seems to lie in the family's ability to complete the tasks of transition: articulating a new model, letting go of the old one, and then choosing and implementing appropriate new structures, systems, and processes.

As we saw with Collaborative Family Foundations, some of these choices must be renegotiated with each new generation. Because of the special nature of some Family-Governed Staff-Managed Foundations, the choices may also have to be renegotiated—or at least restated—with each change of professional leadership. Even more than the transition from the Controlling Trustee Foundation to the Collaborative Family Foundation, the adoption of the Staff-Managed form is not a developmental progression, it is an organizational choice. In fact, there were several examples in the sample of foundations that moved back and forth between the two forms, depending on the particular resources available at different points in their history.

## THE PORTER FAMILY FOUNDATION

Jeff and Leslie Porter, a successful entrepreneur and his wife, started a foundation to coordinate their personal giving. After ten years, when the grants exceeded $100,000, the couple hired an executive director and turned everything over to him. One third-generation cousin recalls, "Grandfather was so busy with the business that he was glad to have someone to organize and run the foundation. The staff did the research and made funding decisions. Four times a year they asked for a meeting and, in a couple of hours, the staff would describe what they were doing and the family would apply the rubber stamp."

This continued during the twenty-six-year tenure of the first executive director, and accelerated during the twelve-year reign of his successor. Especially during the second regime, the family had no effective role, either in management or in governance.

Then the third generation staged what is generally described as a revolution. The executive director and the senior family leader were both invited to retire. The foundation entered a decade of redesign, negotiation, and soul-searching. The fact that this was the family's first experience with open discussion of mission, areas of focus, values, and governance was complicated by the size, complexity, and precedents in the grantmaking process.

There have been many wrong turns. The successor executive director did not work out, nor did the second try. Many talented family members declined the opportunity to join the board because of the intensely demanding workload. The staff, largest in this sample, have a powerful momentum of their own. The third-generation leaders of the family's re-emergence in the foundation are burned out and exhausted.

Today, the Porter Family Foundation is a powerful and extremely professional organization that is trying to define the optimal role for the family in the future. It is beginning to have the conversations that are necessary to see what family "dream" can emerge for the future, and how it can be implemented. So far, the quality of the staff and the professional procedures built over its first fifty years have allowed it to continue excellent grantmaking while it addresses these governance issues for the first time. There is a window of opportunity, since the oldest of the next generation are still teenagers.

## THE INCREASING PRESENCE OF NONFAMILY STAFF

The Porters may be an extreme case, but they are hardly alone in their experience. As we discussed in the previous chapter, nearly all family foundations turn to nonfamily resources to augment their capacity at some point. In most of our cases, the first outside hires did not occur until many years after the founding. Although two of the cases had paid staff positions from the beginning, and another four hired their own staff during the Controlling Trustee stage (many more "borrowed" staff from the family business or family office), the average time span from the founding until the first dedicated staff person was hired was twenty-seven years (with a range of 0–50 years).

The thirty cases in our sample have gone down widely divergent paths from those beginnings. Currently, two of the foundations have no staff roles, either volunteer or paid. The trustees manage the grantmaking. In one they share the work approximately evenly; in the other the chairperson takes on most of the responsibility, and the role rotates. One of these is the smallest foundation in the sample, and the other is moderate sized.

Another four foundations have given a staff title to a family-member volunteer. They work pretty much the same as the unstaffed foundations. They represent only 13 percent of this sample, but the vast majority of the family foundations in North America.

Seven more foundations have a paid executive director, sometimes with a part-time secretary, but no other staff. Five of these seven employ a paid family member in the role (two full-time, three part-time). These foundations have crossed a line that differentiates them from the unstaffed or volunteer-staffed cases—they have decided that grantmaking is a professional activity, and that some of the foundation's resources should go toward supporting its capacity. It is a significant psychological change, and the decision to pay a salary for staff services was an important moment in the history of all of the foundations who have taken that step. In this sample at least, that step was easiest to take with a family member in the first salaried management position.

The remaining seventeen foundations have at least two staff. The range in this sample is from two to twenty-four FTE; the average among those who have any professional staff is about five FTE. Two of the foundations in this latter group have a family member as an executive director or comparable role. One has a small staff serving under the family leader, and the other has a very large one. The other fifteen have a nonfamily executive director, or president, or other executive title. The nine cases we identified as Family-Governed Staff-Managed Foundations all came from this group.

A nonfamily executive director by itself does not put a foundation in the Staff-Managed category. Among the seventeen foundations with nonfamily senior staff, we categorized eight as Collaborative Family Foundations, because the professional staff in those foundations work as implementers of a grantmaking program with significant family "hands-on" participation.

One could argue that the discrimination is artificial. Conceptually, collaboration and professionalization are separate and independent processes. As we discussed in the previous chapter, you can imagine a foundation that is both collaborative and professional, or neither, or any combination of levels of each. And many foundations sit on the boundary or are in transition, with some characteristics of each type.

However, in this sample and in practice, there is a meaningful distinction between the two types of foundations:

1. In Collaborative Family Foundations, the *governance* (policy, strategy, mission, and ultimate funding decisions) and the *grantmaking* (creation of descriptive materials, proposal screening and review, grantee relations, site visits, follow-up, compliance with regulations, and financial administration) are both handled primarily by the family (with or without staff support); and
2. In Family-Governed Staff-Managed Foundations, the *governance* is the family's responsibility and the *grantmaking* operation is managed and carried out by the professional staff.

The family's image of the best design for their work is what differentiates the two groups, rather than any arbitrary criteria of size or program. For example, our sample includes four foundations that are similar in size, all with nonfamily executive directors and small staffs. The first two, described below, are good examples of the Family-Governed Staff-Managed Foundation, and the next two are Collaborative Family Foundations.

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The third-generation leader of the Plaistow Family Foundation came to the conclusion and convinced his siblings and cousins that the foundation had "become a business that required professional management." They had to struggle to move beyond individual influence and branch representation, but their children now look at the nonfamily executive director as "the leader, the one with all the knowledge and information."

In the transition to staff management over ten years they have adopted term limits, brought on nonfamily directors and instituted "at large" elections, formalized the grantmaking process, and begun a discretionary grant program to "reward the trustees for their voluntary service and take the pressure off every discussion."

The executive director looks at all the proposals and makes a recommendation on each. She declines many on her own judgment and does site visits. Trustees receive all of the information at each meeting about all proposals received, declined, and recommended. Their discussions are engaging, although they do not tend to challenge the executive director's judgment.

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This foundation began changing from a dysfunctional Collaborative Family Foundation to a Staff-Managed Foundation when the third generation hired the first nonfamily executive director. Before, meetings had been chaotic as the family struggled to meet the dispersal demands of a growing endowment. The family members were committed to the general legacy of philanthropy, but none was willing or able to devote much time to foundation management.

Over several years the new leader guided the family through discussions to sharpen mission and program priorities that reduced the number of proposals under review by two-thirds. As the family became more reassured of the director's competence and respect, they increasingly withdrew from grantmaking. Now each recommended proposal has a brief description prepared by the staff, with a recommended amount for the grant. In very brief biannual meetings, trustees go through the list and decide to accept it as recommended, to accept it but to change the amount, or to reject it (which has only happened once in ten years). Staff do all site visits and follow-ups.

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In contrast, in the two similar-sized foundations we have categorized as Collaborative, the families rely significantly on their staff leaders for operational management, but still retain an active involvement in grantmaking. It appears that they are on a trajectory of increasing autonomy for staff, but have not yet transferred full responsibility to nonfamily professionals.

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From the outset, Norm Greenberg's secretary did all the support work for the grantmaking of his Five Hills family foundation. When she retired, Norm decided it would be important to increase the staff to a professional level. With the help of a head-hunting firm specializing in nonprofit organization executive recruitment, he developed a job description and a profile for an executive director and hired Phyllis Byrd.

Over the years since, which included the founder's death, Phyllis has gradually professionalized the operation and family governance has gradually separated from day-to-day operations. As executive director, Phyllis does the initial analysis of all proposals. After she has made sure that the projects comply with the guidelines, she presents them to the family committees depending on what category they fall into. She has the first right of refusal and only presents the proposals that she knows meet the foundation's criteria and have a chance of being accepted by the board. But the committees discuss each recommendation and they actively present their suggestions to the full board.

Decisions to hire new staff are made by the family directors after the executive director makes a recommendation. Supervision is the executive director's responsibility, although directors do have some direct contact with staff members.

The family is very appreciative of the change that the professional staff have made in the foundation. All of the family directors reported that the executive director had been "a godsend," that she has professionalized their organization, helped them focus their grantmaking and go beyond their family and personality difficulties.

However, the family periodically reasserts its intention to stay involved beyond general policy. The ranking member of the senior generation is clear in her assessment. "Without Phyllis, we wouldn't have a foundation anymore. She has a strong personality and sometimes pushes things the way she wants as opposed to where the family wants, but this is when the family has to be firm and clear—and she always gets the message and acts on it."

This family may move to the Staff-Managed type in the near future. The executive director is now stretched to the limit and is hiring new staff. The family members are becoming more and more comfortable turning over their remaining role in the day-to-day operation of the foundation. If they make that transition, it will happen when the senior generation are gone and the third generation reassesses their availability and priorities.

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John Thomas, the longtime executive director in the Lawton Family Foundation, reports to the family chairman, but he is pretty much left alone to run the day-to-day operations and represent the foundation in the community. He has never had a formal performance review in twenty-seven years. He hires and supervises staff. He organizes the docket and facilitates the grantmaking meetings. He has also played a key role in managing family involvement. He is the contact person who keeps everyone informed about foundation activities.

John also does a lot of listening to family members' complaints and ideas. Everyone credits him with shaping the foundation, understanding the families' desires, and bringing in some of the best proposals. He was also the one who raised the issue of the preparation of the next generation. On many issues, the executive director was the one who thought strategically about the foundation while the senior family members concentrated only on grants.

But the Lawton family was not interested in giving authority over the grantmaking to the staff. Most of the funding went to trustee-initiated proposals. The family members made their own arguments, and often did whatever site visits and follow-up they had time for.

John Thomas was valued for his behind-the-scenes preparation and maintenance work on the family relationships, but the senior generation family members maintained control. It was not a staff-managed foundation yet. Whether it becomes one will depend on how the fourth generation interprets its role as the seniors withdraw, and what kind of individual they bring in to follow this supportive, facilitative leader.

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In some of the cases, the governance-grantmaking relationship is more strained or ambiguous. The balance of authority and responsibility remains unclear, and often is a source of tension.

The executive director is a dynamic, bright, and competent staff person, whose confidence and work satisfaction are slowly being eroded by some of the family dynamics and design problems concerning her role. "We are really understaffed for the size of our foundation, and in all honesty the trustees don't really listen to me. A few times I've had to resort to threatening to leave to get the point across that what I have to work with doesn't match what they expect from me." She is sure there's a job description for the executive director, "but I've never seen anything in writing." The chair of the board supervises the executive director and staff.

The executive director has not received permission to publish guidelines regarding their mission. The board sometimes adheres to its stated program priorities, and often does not. Directors sometimes take the lead and make commitments, and then inform staff. Neither board nor staff does any follow-up evaluation on grants and whether programs are effective. The executive director says that the staff is "working on that right now," but they are too stretched to get very far and the family is not pressing it.

There are no standing board committees, but there have been ad hoc groups to study specific grantmaking areas. There are no term limits on board service.

The foundation has accomplished some excellent grantmaking, but has also suffered some very rocky family dynamics. Staff are somewhat demoralized. Most family members appreciate the contribution that the staff are making ("The program staff are gems—they should only stay!"). But turnover continues to be a problem.

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In another foundation, the dilemma is that the staff have taken over the grantmaking process but the family has not been able to address pressing governance issues. The entry of the next generation is much discussed but without conclusion or action. Term limits are on the books but ignored. The work of the foundation is going on extremely well because the family has invested adequate resources in a full staff, well trained and supervised by the executive director. But continuity is threatened by their extreme conflict-avoidance and their inability to wrestle with the remaining governance policy issues.

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Table 5.1 summarizes the similarities and differences we found in the Collaborative Family and Staff-Managed stages of foundation develop-

**Table 5.1. Collaborative and Staff-Managed Governance Roles**

| *Collaborative Family Foundations with Staff Support (20 cases)* | *Staff-Managed Family-Governed Foundations (9 cases)* |
|---|---|
| Frequent board meetings | Annual or semiannual board meetings |
| Family active in grantee relations | Staff manage grantee relations (site visits and follow-up) |
| Detailed board or committee review of proposals | Summarized board review of grantmaking "slates" |
| Average one FTE staff per $1.5 million annual giving | Average one FTE per $1 million annual giving |
| Family supervises and evaluates staff | Staff leader supervises and evaluates staff |

ments. As we noted in the Introduction, families may also move back and forth across these categories. Two of our sample foundations (including the Porters) spent some number of years with staff in control of grantmaking. The family performed some of the governance tasks but were not involved in the day-to-day operations. Then at the time of a generational change, the family reassumed management of the grantmaking operations. Today they are in a middle ground. The staff still retain significant responsibility for the program, but the family are increasingly directly involved. In both of these cases, the era of a very strong and autonomous staff director has given way to family control.

## FOUNDATION SIZE AND STAFFING REQUIREMENTS

To some extent the impetus to adopt this form of foundation governance is a matter of size. The median asset base for the staff-managed foundations in this sample is $100 million, compared with $54 million for the sample as a whole.

It is an axiom of business families that families grow faster than businesses. That is, across generations, the number of individuals in the family as a whole expands faster than the assets or revenues of the business. That is very relevant for the degree of financial dependence on the business that a family can sustain over generations. The growth, profitability, and available dividends from an operating company get divided into more and more slices as the generations continue, and in almost all cases (at least beyond the second generation) that means that each slice gets smaller and smaller.

While the number of family "consumers" of the business success increases, the percentage of each generation that is involved in company management or governance usually gets smaller and smaller. The collaborative work of being a shareholder is minimal. Family business leaders operate the company on behalf of all the family, and augment their own resources with many nonfamily employees.

In these foundations, some of the dynamics are the same as in business and some are different. In many of the cases the assets expanded in leaps, and the available family resources increased more slowly. In a few cases the family stayed relatively small, while the assets of the foundation (and the resulting requirements of grantmaking) expanded exponentially. Instead of too many consumers of steadily growing profits, the family generated too few providers of suddenly exploding work.

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This small family funded their foundation from the proceeds of a very successful family business. Over the course of five decades, while the number of family members doubled, the foundation grew from an initial \$100,000 to almost \$200 million in assets. Halfway through this process, the family hired its first nonfamily executive director. Over the following thirty years, a series of nonfamily executive directors and program directors has guided the growth of the foundation. The next generation of family trustees has reached adulthood and gradually assumed leadership on the board, but they have not reasserted direct control of the grantmaking process.

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In another case, two sons took over both the family business and the foundation at the death of their father. They were completely preoccupied with the company, and happy to turn the foundation over to a small group of financial professionals who have run it for the past decade. The enthusiastic staff organize the requests, do the investigations, and prepare a recommended docket. The small family board meets quarterly for a couple of hours to endorse the program.

The system may be beginning to fray around the edges, particularly due to the family's slow ramp up of their attention to governance and funding issues. The staff has been challenged recently by the rapid growth of the endowment, and they have tried to nudge the family toward a more strategic approach. Also, the nonfamily executive director is the one thinking about preparing the next generation of cousins to someday become trustees. At present, however, the brothers are very content to support the foundation wholeheartedly (including financially—the company continues to make large annual contributions to the endowment), but to let the professional staff manage its affairs.

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Although size is clearly the most significant predictor of staff control, it does not tell the entire story. There are smaller foundations that are completely staff-run, and larger ones where the family have retained a much more active role in grantmaking—attending every site visit, conducting the first review of proposals, and, in another arena, directly overseeing the investment portfolio. So, while correlated with size, professional staff-managed grantmaking is also a matter of style.

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The trustees in the Simonton Family Foundation are seasoned grantmakers. They have sat on many nonprofit boards, including various family foundations. As a result, they have firsthand knowledge of many social service organizations and private schools in their funding area. However, in this foundation, they do not initiate grant proposals, or go on site visits. Rather, they rely on the program officers' research and recommendations.

The foundation awards many small grants (under $20,000) in addition to the larger grants. The program officers identify and screen applicants and do the site visits. Before presenting their recommendations to the board, the program officers meet with the executive director, who acts as devil's advocate, presenting arguments in favor of proposals the officers recommend rejecting and against the ones they like. The executive director's job is to keep in mind which proposals will most appeal to trustees.

The project officers try to have follow-up contact with grantees, but given the number of grantees it's hard for them to stay in touch with all of them. One program officer who covers the arts estimates that she is out approximately 100 evenings a year, attending performances and exhibits and staying on top of developments in the arts community. Extensive dockets are prepared for each quarterly meeting: Each proposal is presented with a detailed written review, which may exceed 100 pages.

The board rarely rejects staff recommendations, but sometimes it asks for more from the staff. Recently they have pushed for more accountability in the foundation's grantmaking. The board asked staff to periodically prepare brief summaries of a random number of grantees. Usually the staff reports only on the successes. One director encouraged them to report about the failures as well so that the board and staff might learn from them.

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In contrast, the Goldfarb Family Foundation—one of the largest and oldest in the sample—has remained firmly in the Collaborative Family Foundation category. They have had nonfamily heads of staff for fifty years, and each one "understood that their role was to carry out the wishes of the family." Grantmaking is managed by large, overlapping committees of family members covering multiple geographic areas and program priorities. The committees make recommendations to the trustees at semiannual meetings. In addition, there are funds allocated for individual contributions. At any one time there might be seventy to seventy-five people working on foundation activities, all direct descendents of the founders.

As the family begins to incorporate the fourth generation, there is some indication that the collaborative model is under strain. Some family members feel the time has come to respond to the sheer size and complexity of the family and turn more grantmaking responsibility over to nonfamily professionals. Others worry that "if you make it terribly professional, it takes the life force out of it—the heart and soul slips away. I don't see it as a business."

The new staff leaders are caught in the family's ambivalence. The executive director described his role as "a cross between a community organizer and an executive secretary." Until now it has been clear that the staff are definitely not to be public spokespersons for the foundation. Now some family members want more productivity and accountability from staff. The executive director has proposed formalizing management, including staff job descriptions and evaluations, but the family's response has been lukewarm. There may be a transition in this family's future, but moving toward it will be a complicated process.

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## THE SUCCESSFUL TRANSITION TO A FAMILY-GOVERNED STAFF-MANAGED FOUNDATION

### *The Importance of a Skilled Nonfamily Executive*

Not surprisingly, the one essential ingredient that makes the Family-Governed Staff-Managed Foundation work is the highly skilled and self-aware executive director. All nine of these foundations had found such a person at least once in their history. The descriptions are remarkably similar across cases:

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Sandra Brigham, speaking of the former executive director who dramatically changed her family's foundation during his fifteen years of service, said, "He was a champion, and he really opened our eyes. The family was getting very large, very diverse, somewhat disinterested. He showed us that the philanthropy work was serious business, worthwhile, important, but that we had to do it well, with authenticity. We needed to know our communities, to know firsthand the people we were helping."

During his service there was no question that he was the driving force behind the foundation, and the prime shaper of both its strategy and its procedures. Since other executive directors have succeeded him, the foundation has returned to a Collaborative Family Foundation format, with family members managing the operation directly. "He helped us create the foundation that we have now, and then we took responsibility for it back in our own hands."

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The most sensitive and intelligent leaders are able to negotiate the family dynamics as well as the foundation's internal works. Such leadership is common to all of the cases that are satisfied and comfortable in this category.

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This executive director hires, supervises, and evaluates the performance of this large staff. Program officers praise her for her fairness, tactfulness, accessibility, and helpfulness. She is also a master of diplomacy in dealing with trustees. After fifteen years on the job, she knows intimately the family members, their quirks, and the family's dynamics, and they respect and trust her. When trustees have concerns, they speak individually with her rather than discuss these matters with the full board. She seems to encourage this practice, perhaps wishing to contain emotions brewing below the surface. She makes a point of never taking sides and never repeating to one what another has told her in private.

*Triangulation and Control*

The cases where the executive director has this kind of intimate, interpersonal influence are, of course, complicated. Triangulation—the intervention of a third party as a mediator, facilitator, interpreter, or defuser—into the conflict between two family members is a well-studied phenomenon in the family dynamics literature.[1] Early theorists saw triangles as essentially destructive to family process. By "shunting" around conflict they reduce the family's ability and motivation to resolve it directly. However, contemporary theorists are more mixed. They see triangles as sometimes an efficient coping mechanism. They can lead to solutions while keeping chronic, unresolvable conflict from destroying the family's overall ability to get work done.

In these cases of effective triangulated intervention by the executive director, the family has to balance the benefits and risks. A staff leader who knows the personalities and quirks of family members well enough to steer the discussion around the rocks can make the difference between hostile or interminable meetings and effective, light-hearted ones. But even a well-meaning executive director who is committed to furthering the agenda of the family will find it hard to be effective without sometimes being manipulative, in the service of "what's best for the family."

That is where the risk comes in. If the family uses the staff facilitator to avoid essential negotiations and arguments, or allows him to tilt the balance of influence toward one individual or branch and away from another, or to manipulate the overall priorities and process of the grantmaking, then the "effectiveness" of the director has obviously gone too far. The staff leadership is there every day, dealing with program officers, grantees, and family members in private conversations. A power-hungry executive will have more than ample opportunity to bend the system, out of the view of the occasional participation of distant family trustees.

Sometimes the problem goes beyond occasional discomfort with style. There were a number of cases in the study where the nonfamily manager did not read the family intentions well, either accidentally or by design. Sometimes the fit was poor. While the data are not clear on this point in many cases, we estimate that fully half of the foundations in the sample who ever employed a nonfamily executive director had at least one bad experience that led to a resignation or a dismissal.

### *From "Rescuer" to Renegade*

While the fear of losing control to renegade staff is voiced in various ways by many individuals, in our sample it had some reality in only two of the cases. In each of these situations the staff first entered as rescuers. They formed a bridge from a Controlling Trustee to an unprepared younger generation, or they brought a higher level of organizational or grantmaking expertise to a foundation that was in danger of disintegrating. The foundation then began to adapt to their agendas, and the executive director came to be a more visible representation of the organization than the family. (In both cases, the family use almost identical stories to describe the warning sign of the director beginning to refer to the organization in public as "my foundation.")

These problematic individuals are different from their counterparts who carefully self-monitor and maintain a clear distinction between the trustee and staff roles. They became carried away with their own philanthropic mission. But in each case they did so with the approval of the senior authority in the family. The family dynamic that kept them in control was the conscious or unconscious endorsement of the senior generation, and the reluctance of the younger generations to challenge it. In turn, the end of this phase of staff dominance was typically initiated by the accumulating objections of the younger generation. At some point an individual successor leader emerged in the family, and a transition back to family control began.

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Milton Greene, the second-generation leader (and cofounder) of this foundation brought in a visionary and impressive executive director when the dispersal demands of a growing endowment were more than he could handle on his own. The executive took the foundation in a dramatic new direction. She made extensive use of highly technical advisors to focus the foundation on funding advanced research in its field. This provided status for the foundation but very little connection between the family trustees and the work.

Gradually the executive director became the primary voice for the foundation. She operated as the senior trustee's proxy, which eventually became intolerable to the rising generation. They prevailed upon their father, who was also beginning to worry about the shift in control. When new information emerged about the executive's mismanagement of the investment portfolio and potential conflict of interest, it moved the father to action—although out of loyalty and a reluctance to reframe his earlier decisions as mistakes, he continued to defend the executive's performance and attribute her problems to minor facets of her style. "She is a smart woman and a valuable friend but an autocratic leader. She was getting too independent, and some directors thought she was giving too much money to projects in her own field." The executive was helped to retire and a member of the third generation became the new president.

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In this foundation, the childless founder was the strong, individual Controlling Trustee during his lifetime, but it has been a nonfamily employee who has taken on the role of his "voice" in the decade since his death. He has no vote on the board but likes to remind the trustees that they should be grateful to their uncle for what he left them (the business that made them quite wealthy besides the foundation). He also reminds them that the foundation money is not their money so they should "behave." He has an accounting and tax background and has never worked elsewhere. His father also worked for the founder.

This administrator, who says that he defines himself as a family member, has very strong opinions about governance, such as: (1) It is a bad idea to have nonfamily trustees on the board, because they bring conflict of interests, by being on boards of other organizations, and it is too difficult for family members to disagree with them; (2) Too much information is not good for trustees. A summary of recommended grants and a few words about each grantee is enough preparation for the board's grantmaking meetings. They rarely invite individuals or organizations to present their proposals to the grant committee, because they talk for too long, confuse the trustees and don't add much to the decision process; (3) It is stupid to publish a mission statement, because "that pins you down and makes it more impossible to deny that you said something if you change your mind later."

The family is very dependent on his ongoing efforts and staff work, but they are beginning to realize that their values are not always reflected in his actions. This tension is likely to continue to build. It has taken the trustee group, all second-generation members and not direct descendants of the founder, a decade to begin to feel empowered and responsible for the foundation. They are now beginning to prepare for the eventual entry and transition to their offspring. The executive, with increasing fervor and isolation, is hanging on by championing the founder's style and ideas. A next transition in leadership is imminent.

## CHOOSING THE STAFF-MANAGED FORM

What starts a family down the path of withdrawing from the grantmaking tasks (proposal screening and review, grantee relations, site visits and follow-up) and focusing on governance (policy, strategy, mission, oversight of investment performance, and ultimate funding decisions)? The first answer, in some cases, is, surprisingly, legacy. As we briefly discussed in chapter 3, while most of the donor/founder Controlling Trustees were very hands-on grantmakers, not all of them were. Eighty percent of the Controlling Trustees relied on family business employees and financial or legal advisors to support the grantmaking process, and at least half of them turned over significant tasks to these staff. Half of the original boards had nonfamily members, typically from the same category of business subordinates or service professionals. (These percentages hold true for the sample as a whole and for the Controlling Trustee subsample.)

Even when the Controlling Trustee was unilaterally in control of the foundation's philanthropic agenda, in many cases the actual grantmaking was managed by others from the very beginning. Their tasks included fielding requests from prospective grantees, accumulating proposals, conveying responses, and in some cases even recommending funding levels or matching available funds with the levels of requests. Managers were not employees of the foundation, but in all other respects they operated as nonfamily professional staff.

As we discussed in chapters 3 and 4, these individuals were very personally connected to the founders. When the founders retired, so did many of them, and their functions had to be covered by others. The transition to the collaborative stage, as described in chapter 4, is frequently marked by a reassertion of family control at both the board and operational levels. As we noted, the first dedicated staff were not hired on average until twenty-seven years after the foundation was founded, and in about one-third of the cases the first position was filled by a family member. However, the percentage of non-family grantmaking staff continued to rise as decades passed. It is not a surprising trend. But it is a source of ambivalence and concern in many of these families.

### *The Common Worries: Cost and Control*

Two constraints tend to inhibit families from following this developmental tendency into a transition from a Collaborative Family Foundation to a Family-Governed Staff-Managed Foundation. The first is cost. Most families do not know the appropriate level of expenditure on operations, but they assume that less is better. The theoretical goal is no expenditures at all. The concern with administrative spending grows out of the first part of the philanthropic dream, to do good work. Every dollar spent on system maintenance is seen as a dollar taken away from grantees. The issue of expenditures on infrastructure will be discussed more fully in chapter 6.

The second reason that families resist extensive use of nonfamily staff is the fear that the family will lose control. This grows from the second part of the dream, to enhance family dynamics and integration. If the foundation provides a collaborative venue for the expression of the family legacy, the fear is that it will be lost if the foundation is "turned over to outsiders."

In fact, the results from our sample provide extremely strong reassurance in response to both fears. Foundations that have successfully accomplished this transition have done so without compromising either cost-effective performance or family control. Quite the contrary: It is the resistance to this transition in the face of enormous evolutionary pressure that threatens continuity in some of these foundations.

Trying to maintain a bare-bones, family-only structure in a large-scale foundation overstresses both procedures and people. The best talent get burned out. Grantees become neglected and frustrated. Procedures are short-circuited due to lack of time, which undermines credibility. New program development slows or ceases altogether.

Most importantly, the pressure of giving away mandated funds becomes a burden rather than an opportunity. The smaller families may recruit participation by younger family members just to get the work done. That drives away those who are ambivalent or at stages of their lives with maximum other demands, and makes those who say "yes" feel resentful at being exploited.

Some families turn to nonfamily staff because the family resources are simply not enough. However, the successful cases of foundations that decide to turn significant responsibilities over to nonfamily staff are those who think carefully about how this will create *different* resources, not just *more* resources.

The role differentiation does permit a kind of specialization between family and staff that has worked extremely well in most of the cases of this type. As they become more comfortable with nonfamily staff, they begin to evolve in two directions. The family gets better at governance, and the staff get more skilled at grantmaking.

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This family would probably describe itself as a Collaborative Family Foundation, which is a testament to the savvy and subtlety of the nonfamily executive director. In the ten years since he joined the foundation he has guided it into a professional level of operation without raising the defensiveness of the quiet, polite family. The staff plays the major role in managing the family involvement, identifying programs to support, setting priorities, and organizing the trustees.

Although the family trustees are not very proactive in developing strategy or programs, they are conscientious in examining and evaluating grant proposals and shaping guidelines for grants. The executive director is skilled in knowing how family members will respond to particular proposals and is always respectful of their wishes. At the same time, he does his best to educate them in ways to professionalize the foundation, focus programs, and develop the next generation.

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In a similar case, the trustees do not interfere in, or closely monitor, the executive director's management of the staff. For the most part he also is skilled in managing relationships with the family. He knows how the board thinks and what it values. He communicates that to the staff so that they keep the board's interests in mind when they present their recommendations to the board.

The staff attends to grantmaking alone; it has no role in family matters. The executive director has never discussed succession planning with the board members nor have they raised the topic with him. Other than dining together at a nice restaurant the night before board meetings, the board and staff do not socialize. The one "sticky patch," ongoing bickering between the executive director and one of the senior trustees, is considered minor by the board; overall they consider him an invaluable asset to the foundation.

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Specifically regarding the fear of loss of family control and cohesiveness, the most important conclusion from this project concerning professional staffing is an ironic reversal. Most professionals and practitioners in this field assume that good grantmaking grows out of good family processes. That is, they believe that families who manage their relationships well, contain conflict, and have affection and respect for each other will be able to generate good grantmaking procedures and effective operations.

We found that it works in the opposite direction. That is not to say that a family doesn't need a threshold of good process—a basic ability to work together, to have meetings, to talk about the task. But good performance in the foundation's work creates good emotional experiences and commitment, more often than the reverse.

It shouldn't be a surprise. Business works that way too. A failing, parochial, totally family-focused business can destroy a family, rather than sustaining it. On the other hand, by treating the work seriously, relatives end up treating each other seriously as well.

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"I'm very proud of what we have accomplished. We've done a lot. We know internally that it's worthwhile. It's fun and beneficial. I guess what I mean is, knowing that it's beneficial is a big part of what makes it fun."

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We return to this theme in the discussion of family dynamics in chapter 7.

### *Links between the Family-Governed Staff-Managed Foundation and the Overall Family Enterprise*

The change to a Family-Governed Staff-Managed Foundation often accompanies a parallel evolution of the other parts of the family's enterprise: the family business, a family office, or other interdependent financial arrangements. Five of the families who run these highly professionalized foundations still have an operating family business; four do not. That is a slightly higher percentage than for the foundations in the Collaborative Family Foundation group, where only nine of twenty-one have a currently operating family business. In both groups, however, the distinction between the foundation and the business has increased over time. Organizationally the two systems have become very independent by this stage. In fact, several of the businesses had developed their own corporate philanthropy capacity, replacing the role that the foundation played in its early years.[2] The roles of family members in the various parts of their enterprise evolve over time. In the second generation in particular, individuals begin to specialize within the family governance structures. Within a sibling group, some would be in the family company, some on various boards, some in a family office or family council, some trained as professionals providing services to family members, and some in the foundation. These assignments are usually some combination of personal preference and parental encouragement.

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This entrepreneurial father had a grand scheme for dividing up the family empire among his five children. The eldest was given the grandparents' family trust to manage, which provides generous annual disbursements to all family beneficiaries. The second son runs the family business, and his younger brother sits on the board. The oldest daughter is the successor president of the foundation. Her younger sister was offered the position of copresident, but turned it down. She does fill one of the trustee seats, and may increase her involvement at a later time.

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Everyone in this family assumed that the third-generation business leader would take over the foundation when his father retired, but his sister, a younger daughter of the senior, was chosen instead. The brother admitted, "My sister and I are very competitive, and since I was taking over the company and also had young children at home, my father and I decided that my sister should become president." In fact, the official plan is for the presidency to rotate through the sibling group of the brother and three sisters, but most of them assume that the first chosen sister will stay in the role as long as she wants.

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Third-generation families often perpetuate the role specialization that the second-generation siblings began. It is quite common in these families to see more family business executives coming from one branch than another. The foundation, however, is still much more likely to be governed by an equity model of representation.

This sometimes creates a dynamic of imbalance. Some branches which are not represented in the operating business would prefer not to have to share foundation governance with branches that are in both. They view the foundation as their "territory," a compensation for being excluded from the company.

In some families, those in the business were happy to agree. Encouraging other branches to focus on the foundation took the pressure off of them to also invite their siblings or nephews and nieces into the company. But in other families, those in the business still fought for equal representation in the foundation. They felt it was more of a family entitlement, a way of remaining close with parents, and an opportunity to have a public face that the business did not provide. It is an issue the families often find difficult to address directly. If there is tension about branch rights and representation, the resulting avoidance may interfere with good planning about succession and successor development.

Another factor adds to the give and take of the family's human resources across all its collaborative efforts. In most of the Staff-Managed cases where the family business still exists, the family's role in that business has undergone a dramatic change. Family members have withdrawn from executive roles in the company, and the presence of family members at all levels of management is greatly decreased. The family is transitioning from "owner-managers" to "owner-investors" in the companies that generated the family's wealth. In the eyes of the displaced executives, the foundation can appear as a suddenly more attractive activity. There is some evidence of increased tension between individuals and branches as a result of these changes, which in several of the cases has occurred only in the last several years.

Furthermore, in most of the cases in the broad sample where the family no longer has a business, the family's withdrawal from an operating business was voluntary and strategic. In five of the cases, however, the businesses that provided the initial resources to establish the foundation subsequently failed, or are currently in trouble. The reasons are varied. Most commonly no one in the current family blames the leadership for the downturn. These businesses ran into industry problems and could not maintain their competitive edge.

In a few cases, however, there is either an explicit or implicit conception that poor management was responsible for the failure. Either way, the role of the foundation changed dramatically when the business disappeared. Displaced executives sometimes looked for an increased role in the foundation. The internal hierarchy of family branches was altered, as the "wealth generating" branch lost its basis for status. If the lingering explanations and recriminations about the closing of the family business are underlying dynamics in foundation governance, they need to be identified and resolved before they compromise continuity planning.

### *Nonfamily Board Members in the Family-Governed Staff-Managed Foundation*

There is an important distinction between two types of nonfamily board members. The first subgroup includes family friends, personal advisors, business associates, and service professionals such as attorneys and accountants. Over half of these foundations began with at least one nonfamily director on the original board. These individuals were more like staff than trustees. The Controlling Trustee maintained the authority and discretion to make decisions on behalf of the foundation. The nonfamily board members in this category shared the founder's values or at least were committed to implementing them.

When nonfamily trustees are added later in the life of a foundation, especially if they are part of the transition to a staff-managed foundation, their role is very different. They are asked to provide an outside perspective in the governance and grantmaking processes. Eight of the foundations had at least one of this kind of nonfamily trustee on the current board. Sometimes the expectation is explicit that they represent constituencies served by grantee programs. Sometimes the "community" representation is more general, referring more to the geographic area. In a few cases they do not represent grantee constituencies, but rather skills and experience, such as investment oversight or nonprofit management.

The families also mentioned other important benefits of adding nonfamily board members to the foundation:

- They tend to be "control rods" that temper the emotion of family dynamics. This is partly because they don't share the same family history or carry the same memories, and partly because no matter how close they are to the family, relatives don't want to embarrass themselves by behaving badly in front of outsiders.
- They encourage family members to prepare more conscientiously for meetings. Again, the family does not want to be embarrassed. In our sample, professional staff were asked to provide better and more complete board books when the board included nonfamily directors. And more of the board members will have read them.
- They are sources of informal information about current and prospective grantees.
- They force a reconsideration of what level of commitment and service it is reasonable to ask of all trustees, and what rewards the trustees have a right to expect in return.
- When they ask the family, "What do you want us to do?" they encourage the family to ask itself, "What do we all want to do together?"

In addition to these benefits, we observed several other characteristics of nonfamily board members that were more problematic:

- Nonfamily board members are not particularly focused on continuity planning or involving the next generation. They tend to concentrate on the "here and now." They spend effort getting to know the current family trustees and building trust with them, so they are not motivated to encourage turnover. They also may be supportive of the concept of the legacy of philanthropic values from generation to generation, but diverting time and resources for long-term training and socialization is not their first priority.

- Nonfamily board members tend to be very conservative on geographic concentration of projects. Those nonfamily trustees who were chosen specifically to represent the interests of the local community quite naturally resist efforts by trustees who live elsewhere to diversify the granting regions. "Too much money is going outside the county now. That wasn't [the founder's] intent. He made his money here and he was committed to these people." This is a particularly difficult, and surprisingly unforeseen, dilemma in the foundations at this stage, since the family's evolution to a governance rather than management role, the inclusion of community-based directors, and the geographic dispersal of next-generation family members often happen at exactly the same time.
- Once involved, nonfamily board members are difficult to change. Family members are more polite with their nonfamily trustees than they are with each other. In some cases, the family report being somewhat intimidated by their community trustees.

The solution is not complicated. Most of the foundations with outside directors say that they could not do their work without them. But they don't take their contributions for granted. Foundations that exploit the benefits of outside directors and avoid the pitfalls do so by attending to good governance practices in general. When the role of the board or trustee group in setting strategic direction is clear; when the criteria for all directors are specific, written, known by all members and actually adhered to; when terms are set and when reviews for renomination are meaningful for all directors; and when policies such as geographic focus and programmatic flexibility are fully discussed by the entire group, then the outside directors can add a unique and valuable dimension. On the other hand, when they are added impulsively or at the recommendation of one individual without full debate, and when they are treated like either strangers or guests, then they can become a factor that the family "deals with" instead of one it benefits from.

## CORE DILEMMA: FAMILY GOVERNANCE VERSUS FAMILY MANAGEMENT

The distinction between governance and management is one of the most important and complex issues in family enterprise. It is probably second only to succession planning as a topic in the family business literature. In business the distinction is becoming clearer. Managers provide leadership for the operations, supervise tasks and staff, oversee expenditures, and are responsible for the actual work of the company. The governance structure, primarily the board of directors, is responsible for establishing the overall strategy, setting ethical and performance standards, guarding the financial health of the company, overseeing the performance of key executives, and in general representing the interests of owners. In small companies, the circles can overlap, as entrepreneurs and leaders act as "owner-managers," fulfilling the responsibilities of both. As companies grow the roles become differentiated.

In a foundation, the grantmaking operation is much like the production or service part of a company, but not exactly. The trustees are sort of like a corporate board of directors, but only in part. As we have pointed out, management is different because the "market" for the organization's work is different. Philanthropy is a business where the provider pays the customers instead of the other way around. And the board role is different because the trustees or directors are not actually owners of the foundation.

The complication this creates is that families have to work hard to differentiate the roles and responsibilities of governance from those of management. In the confusion, it is usually governance that gets forgotten. For decades the focus of foundation conferences and publications has been overwhelmingly on grantmaking. There have been great strides in determining "best practices" for public information, programmatic research, proposal review, program evaluation, grantee relations, and efficiencies of grantmaking.[3] Not surprisingly, that is what most people identify as the essential work of the foundation—and by extension, the essential work of the family in a family foundation.

But that can undervalue the essential work of organization development and governance. There are also tasks of mission review, successor development, long-term strategy, policies and procedures, and program prioritization at the level of values (not specific proposals) that enrich the life of the foundation.[4]

To be sure, the distinction between governance and management is not always apparent. The values, the strategy, and the particular funding choices of a foundation are all interrelated, and the dividing lines can blur. But there is still a difference. And it is easy to see examples, in this study and in the field in general, of foundations that do one type of work well and dramatically neglect the other.

There is a fear in some of these foundations of an inherent conflict between family governance and staff management—a battle for control. However, the most successful and satisfied foundations realized that that assumption is false. At every point in their development, these foundations used formalization to strengthen, rather than undermine, family control.

Some founders depended strongly on the services of an efficient, knowledgeable business colleague or employee. Many of the families would not have succeeded in creating a collaborative family governance system without the supportive—and often guiding—hand of one or more nonfamily professionals. A significant subgroup of the thirty cases point specifically to a time in their history when the professional staff or consultants saved the foundation from disaster or decay. In only one case does the family feel that they relied too much on nonfamily staff and could not find a way out.

Most of the foundations that consider evolving to a Family-Governed Staff-Managed Foundation are brought to that option by growth. The work is too demanding for the family to do it all itself. Once they make that decision to hire nonfamily staff, they face the challenge of rethinking the family's role. Some use staff resources to help them do everything; others differentiate the family's role from the staff's, and find sufficient meaning in oversight instead of frontline grantmaking.

Either way, it is very important to realize that staff-managed grantmaking does not in any way diminish the demands of governance. In those families who have turned over operational tasks to professional staff, the ones who are the least ambivalent or threatened are the ones who have *redefined* the leadership role, not abandoned it.

In every case in this sample where executive directors seemed to be going beyond the boundaries of responsibility that the family intended, they were in fact moving into a power vacuum. The family leadership had abdicated, or at least withdrawn from, exercising appropriate governance control. They had not continually debated and clarified mission and priorities. They had not honestly resolved representation, term limits, and expectations for directors. They had pulled too far back from a general knowledge of the grantee community and the new developments in the high-priority program areas. They lacked a solid understanding of program evaluation that could guide the staff's performance reviews.

If the staff were inappropriately running the foundation, it was because the trustees inappropriately were not. At this stage, like all the others, the first task of the family is to choose who it wants to be and what it wants to do, and then, of course, to do it with passion and to the best of its ability.

## NOTES

1. The classic work is Bowen (1978); see also Kerr and Bowen (1988), and Stone (1997).

2. See Levy (1999) for an interesting exploration of corporate philanthropy. Also see Porter and Kramer (2002).

3. Peter Karoff explores some of the dangers of overvaluing "impact-driven" philanthropy in Karoff (2004). See also Sievers (2004), in the same volume.

4. J. Hughes, who has long been one of the most thoughtful leaders from the legal profession in thinking conceptually about philanthropy and wealth management, offers some suggestions about how families can approach quality governance in *Family Wealth: Keeping It in the Family* (1997).