GENERATIONS OF GIVING

Leadership and Continuity in Family Foundations

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PREPARING FOR FUTURE GENERATIONS

The final task of each generation is to ensure the foundation's continuity by preparing the transition of their work to future generations. Surveys of family foundation trustees continually find that the top priority concern of current leaders is succession. Given that, we were extremely surprised at the low level of succession planning in these foundations.

Fewer than half of the foundations had any formal development program for prospective trustees or directors. Even the ones that had well thought-out grantmaking procedures, highly professionalized systems for managing their endowment, and clear rules of behavior for all leadership roles and professional staff, often behaved like ostriches regarding continuity.

In fact, some of the best functioning foundations from a grantmaking perspective were the worst in continuity planning. The distribution of ratings by the research team on the quality of successor development was as shown in table 9.1:

Table 9.1. Ratings of Successor Development Activities

Very Low	*Low*	*Moderate*	*High*	*Exemplary*
4	18	4	2	2

The successful grantmakers who speak with enthusiasm about their philanthropic work and with embarrassment about their neglect of continuity planning have good reason for both emotions.

FIVE REASONS THAT FAMILIES AVOID SUCCESSION PLANNING

We tried to find in the data all of the possible dynamics which acted as impediments to aggressive successor development, and we came up with five reasonable hypotheses. These are reminiscent of the classical work on the resistance to succession planning in family companies,[1] but with some special twists in these foundations.

The first interpretation that emerged was a fear of opening a can of worms. If the current trustees felt they had a system that worked, they didn't want to jeopardize it by adding new players—especially from such a complicated pool as their offspring.

In this moderate-sized third-generation foundation, the senior trustees were reluctant to add anyone from the next generation. "Why should we change something that is working so well?" The current conclusion on the board is that "we're a family but we're also a foundation—it's a business responsibility. We have to focus on our current obligations." Another trustee summarized the discussion: "We have worked so well together, why invite trouble?" They realize that eventually they will have no choice, but for now they are just focused on the present.

A second, but related, explanation given in some of the most highly-functioning trustee groups was that the work is fun, and they wanted to hang on to it for as long as they could.

This foundation was managed by the first-generation parents for more than two decades. They invited two of their five children to attend, but they were not equal partners. Now the second generation is the board, and they are conveying the same message to their children. There are twelve members of the next generation, and they are a lively, bright group. They are very knowledgeable about the family business, and inheritance/estate planning. Furthermore, many of them have strong philanthropic values and have expressed personal interest in the foundation. The second-generation siblings are preparing their offspring for governance roles in the family business, but when it comes to the foundation, they tell them that there is a foundation, it does a lot of good things, and, right now, that's all they need to know.

A third reason for not revisiting the status quo is consideration for the parents. The foundation is in many families the "retirement package" for active leaders. It is easier to move an aging parent out of the controlling role in the family business if the foundation is available as the consolation prize. What is lost in developing successors is gained in the parents' fulfillment and the more active succession in the business and family office.

"They still find it meaningful and fulfilling. No one wants to take this away from them. Dad is not a man who lets go easily. Letting him hold on to something helped him let us take over other things."

Fourth, the reluctance of some families to address succession was a puzzle until we looked beneath the surface at the complicated dynamics as the branches become more differentiated in the second, third, and later generations. Almost without exception, the differences among branches began as distinctions of preference and style, and then evolved into a hierarchy of impugned "quality."

At one extreme, some branches would develop a reputation for high achievement, leadership, successful marriages, accomplished children, and business success. If they led the family company, it did well during those years. If they became entrepreneurs, their ventures grew. They built impressive houses in the best neighborhoods, sent their children to high-status colleges, and were often profiled in the society pages of the local newspaper.

At the other extreme, some branches couldn't seem to do anything right. Their marriages often ended in messy divorces. There might be drug abuse or alcoholism, and often one or more family members were diagnosed with mental illness (either by professionals or in the examining room of the family). In the family business, they had the reputation as either deadwood, who are shunted aside and forgotten, or impulsive spendthrifts, who needed to be cordoned off and controlled. If they passed through a series of marriages, their children were often lost to departed spouses, and their new stepchildren were never fully accepted as family members. Both of these forces complicated their branch continuity.

If family branches differentiate this way it creates increasing tension in foundation governance and continuity planning. Here the differences between the family business and the foundation are most important. Families almost never allow low status branches to control an operating company. The financial imperative overpowers any general bias toward equal opportunity. Once a sibling or cousin is labeled as a "loser" by the family as a whole, there will be high hurdles to limit his or her authority.

That is harder to do in a foundation. When there are no specific job descriptions, criteria, or performance measures for trustees and directors, it is much harder to justify excluding anyone. Especially if the founders describe the foundation as a "place for the family to work together," the right to participate equally is taken as absolute. Equality is the key here. All branches usually assume not only a right to be at the table, but to be there in equal numbers with everyone else. This is independent of the relative size of branches or of their position on the invisible hierarchy described above.

One consequence of this dynamic is that some families avoid continuity planning altogether, or manage to keep it always at a theoretical level. To talk about representation in future generations would force all these issues onto the table, and they don't want to risk that.

This family has talked about rules and criteria for trustees, but never acted. Two of the branches have significant problems with mental health disorders, substance abuse, and other serious problems. The executive director feels that if they truly adopted guidelines, they would end up with no representatives from those branches, "which would create conflict and resentment in the family, which they want to avoid."

Finally, in some cases it was not the senior generation that was reluctant to begin developing successors, it was the juniors. This is particularly true when the foundation was not an important part of the family culture when the offspring were young, and the parents have suddenly decided that now was the time to open the door.

This family developed a very collaborative partnership among siblings in the second generation after a long period of control by the founders. Now they are having a very hard time interesting the third generation. The executive director believes that, for the third generation, "the foundation is just another thing on their plate that they have inherited from their parents. There is a lack of interest, motivation, and, especially, time. Paying trustees to do some of the work will not accomplish much, since they are all independently wealthy. The discretionary 'initiative' fund hasn't seemed to motivate them either. The few third-generation members who have expressed any interest are already on the board."

OVERCOMING RESISTANCE

All of these dynamics are hard to overcome. Trustees do not need any more cheerleading about successor development. They hear it frequently from publications and at conferences and forums. The field has developed more material on succession than on any other topic, with the possible exception of asset management.

The resistances are powerful. What separates the "high continuity" foundations from the others is that they do succession planning anyway. The key seems to be that they do it not as a family process, but rather as an organizational requirement. They think as trustees or directors, not as parents, grandparents, aunts, and uncles.

This may be the most difficult part of the formalization package to put into place. The family can rely on professional staff and highly motivated leaders to initiate other organizational enhancement activities such as policymaking, record keeping, legal compliance, program descriptions, strategic planning, and staff development. Once the family has resolved the dilemma of family versus staff control, these tasks themselves are easy to endorse. Even reconsideration and reaffirmation of the mission, while personal, is also largely an intellectual and cognitive task—it invites people to talk about "what I think" more than "what I feel."

Successor development seems more dangerous. For all the reasons listed above, it is easier to avoid than to initiate. That is why it is so important for the senior generations to honor the organizational needs of the foundation even in the face of ambivalent emotions. The requirement goes well beyond the obvious fact that at some point senior family members will be gone and others will need to take over. The organization has continuity needs that require logical, fair, and proactive preparation.

Identify the Risks and Opportunities

The stories of these thirty foundations are completely consistent with the general literature on continuity planning. The best research on family companies and other family structures emphasizes that "laissez faire" approaches to successor development are risky, and associated with lower organizational success and family satisfaction. Case histories and survey research have articulated a number of reasons:

- Current success is no guarantee of future success, and the strategic choices of the past are not necessarily obvious to new generations. Any organization's particular strengths are best passed on to future leaders while the seniors are still active.
- Successors need training and competence-building to minimize "transition deficits"—the dip in operational efficiency that happens inevitably when experienced leaders withdraw.
- New leaders need the legitimacy that completing a rigorous development program provides, so that the entire family will empower them to act on behalf of all stakeholders.
- Successor development programs are also assessment and selection opportunities, for both existing and potential leaders to see what works, who excels, and how it feels to participate.

There are also other risks of avoiding successor development.

- There are no viable contingency options. Almost a third of the cases in this sample had to deal with an unexpected crisis or death at some point in their history.
- "Fending off" potential successors for too long is dangerous. By the time the parents are ready to be more inclusive, the offspring may have moved away or invested their philanthropic interests elsewhere.
- The very issues that the family is trying to avoid by postponing successor development may be the most important ones that need addressing: disputes over mission, the pressure of geographic dispersal, uneven competencies and commitment across branches, poor leadership, or inadequate staff support.

The particular design of successor development programs is beyond the purpose of this study. Only a few of these foundations had programs that even they found satisfactory. But some were coming to grips with the issue much more actively in recent years, and were making progress. We culled several critical lessons from these cases—a few exemplary, and others imperfect but with strong features.

Invest the Effort in a Comprehensive Design

Some families did not *prepare* for succession and continuity, they just started involving younger family members. At some moment, often triggered when the offspring reached a milestone birthday (21 or 25 or 30), they were invited to join the foundation. In a few cases, the contact was not so much an invitation as a summons.

This foundation is based on a strong identity with the family's church, and has needed to deal with a wide range of lifestyles in its sprawling, complex family. One trustee remembers,

> When I turned seventeen I was not very religious and very much a hippie. Out of the blue, my mother called me up and said, "It's time for you to start attending the meetings." I suggested that I might not be a good fit, that I was very busy with other things, but I didn't argue much. I lived in awe of my mother, and she wanted me there, period. She said, "All of the women in this family are strong," and that was that. I wouldn't say it was the best introduction, but I am still there and figuring it out as I go along.

While action has its rewards, it also can be risky. We have consistently concluded that personal commitment and choice are better processes for continuity than obligation. Sometimes the behavior of participating, no matter why it begins, leads the newcomer to find a place for her own reasons. As she said, "I am still there. . . ." But it is a safer bet to have a procedure of invitation, a "pull" rather than a "push," with a well-designed sequence of experiences that combine education and immersion.

Not surprisingly, some of the largest and most complex foundations have the most elaborate successor development programs. This is particularly true if the family believes in high involvement, consensus decision-making, and limiting the control of staff.

One of the most impressive things about the Jacobsen Foundation is the wholehearted way they bring in new members. Children from every branch are invited to join the foundation when they come of age (16, 18, or 21 depending on the rule at the time).

Those who are interested become apprentices for three years and are assigned a mentor. The mentor is usually a parent, but could be another member who was geographically and psychologically close to the apprentice. It is the mentor's responsibility to teach the apprentice about the foundation and its procedures and to encourage their involvement. The mentor is also responsible for answering questions and acclimating people to the culture of the broad extended family.

The Jacobsens also have a three-day training program for all new members that apprentices are required to attend. New members also attend area meetings and are encouraged to attend the annual meeting. They participate actively in the grant review process, reviewing grants alongside their mentor. The current senior generation are willing to step back from their leadership roles in order to give new members a chance to run committees and participate actively in the foundation.

After they have finished the apprentice program, they become active members. Many of them go on to take leadership positions at an early age. For example, one fourth-generation cousin became a committee chair right after finishing the apprentice program at the age of twenty-one; and another was elected to be a Trustee at twenty-four.

Take into Account the Resources and Limitations of Your Actual Family

While the large foundations have the advantage of plenty of room in the grantmaking process for new members and many candidates (their issue is *selection*), the smaller foundations are more concerned with finding adequate resources in a small population (they worry about *recruitment*). These smaller systems often find it especially important to tailor the successor development programs to the particular needs of the individuals involved.

Once the third generation at the Stein-Marek Foundation decided it was time for succession planning, they gave it their full attention. Initially they did it "by the book," reading stories of other foundations and adopting the most common practices. They decided on a minimum age (21), and limited access to direct descendants of the founders. They sent out a letter to all fourth-generation family members announcing the new apprentice program and asking if anyone was interested in getting involved in the foundation.

Those who responded were invited to attend the annual meeting and all board meetings, to participate in the discussions but not to vote. They also attend a private orientation session with the executive director (two to three hours) and one conference/seminar in the field of philanthropy. The foundation pays for the apprentice expenses to attend the meetings.

The first version of the program required the fourth generation to wait three years before they could become eligible to become directors. This was too long and the juniors were getting frustrated. After gaining some confidence with their own experience, the seniors shortened the program to one year. They also made some adjustments to accommodate special needs of some cousins (disabilities, graduate school schedules, child care).

The seniors are aware that in the first year or two they were somewhat dismissive of the input from their nephews and nieces, but relatively quickly the relationship between the generations had changed dramatically, both inside the foundation and in general. They are now finishing their second cohort in the program, thinking about a third round, and the seniors agree that the next leader of the foundation is expected to be a fourth-generation member.

Start Very, Very Early

The most basic approach to successor development in the majority of cases employed the fundamental transmission of family values through example. Similar to the assessment of successor development, the research team ranked only eight of the thirty foundations either "high" or "very high" on "Next Generation Enthusiasm for the Foundation."

The correlation between preparation and enthusiasm was very high. In every one of the highly ranked cases, the successor generation pointed to early experiences and informal modeling by their parents as the source of their commitment to philanthropy, more than formal training programs.

The first second-generation trustee in this foundation was only thirteen years old when her father died, but stories of his philanthropy influenced her desire to participate in community organizations. When she graduated from college, she spent one summer working for the foundation, doing site visits and writing reports on the agencies. She still considers it the most enjoyable job she ever held.

She remembers the year that the foundation reached the $5 million annual giving mark as a turning point in her determination to participate. She was suddenly aware of the foundation's growing influence, and she wanted to have a hand in the grantmaking. At first she started attending board meetings as an observer; later she was asked to become a director.

Now with children of her own in their teens and twenties, she says that she believes in teaching by modeling. "I talk with them about the grants that excite me. They see how much pleasure I get from serving on the foundation. I don't want to push them into philanthropy. I'd rather wait to see how they develop and what their interests are." She recently was thrilled to see her youngest daughter, without any suggestion or advice, make a gift to an organization she had heard about using her own money.

Balance the "Inclusion" and the "Performance" Agendas of the Foundation

The foundations that are happiest with their successor development programs have found a middle ground between setting high standards and welcoming the broadest participation possible.

At the McInerney Foundation, the older generations have done a superb job of introducing the next generation to philanthropy in a way that is thoughtful, gradual, and comfortable for everyone. The second generation modeled charitable giving and volunteerism at home before their father started the foundation.

When his grandchildren reached adolescence, Mac began taking all four on summer vacations. Aside from spending time with them, he wanted the cousins, who lived far apart, to get to know one another.

These trips were important preludes to bringing the third generation together in the foundation. One of the cousins said, "If we hadn't known and liked one another before we started giving away money together, our ideological differences might have caused problems."

The older generations have been scrupulous about making third-generation participation voluntary. They invite the cousins to meetings, professional conferences, and give them money to distribute but they don't pressure them or ask for explanations when the kids don't participate. When they do participate, the board solicits their ideas and listens respectfully to them.

At present, two of the children are working, one is job hunting, and the other is a junior in college. Three of them make use of the discretionary funds available for them, one does not, because he did not want to comply with the preparation and reporting requirements. "It was a burden to me, not an opportunity, because I didn't have the time to research issues as much as I needed to come to the right decisions. But nobody hassled me or blamed me for saying, 'Not now.'" The kids also agreed that at this stage of their lives, they don't want to be publicly identified with the family foundation; the older generation understand and respect their wishes.

SUCCESSION AND CONTINUITY

Finally, in thinking about the appropriate successor development design for any foundation, it is useful to keep in mind some of the models and theory that have emerged in the past two decades of work with family-owned companies. In any system, successfully completing transitions—generations, leaders, product lines, services—requires a delicate balance of two opposing processes: succession and continuity. These two processes are sometimes confused and used interchangeably, but they are actually complementary pulls and pushes that create the dynamic tension that propels the transition forward.

Succession refers to everything that must change for the transition to be a success. That includes the individual leaders, or the whole generation in control. It may also be the new strategy, or emphasis, that changes the course of the organization's work. It requires the "letting go" of the old and the "taking over" by the new. Succession is the opportunity for the reinvigoration and redirection that comes with change. Without it, all organic systems would age past their ability to perform, and the system would die with its members.

Continuity refers to everything that stays the same through the transition. It may be the vision, the core values, the history, and the place of the system in its network. Continuity requires the socialization and education of the rising generation so that they understand what they are receiving, and the reasons that it has taken the shape it has over time. Continuity is the opportunity to reaffirm the legacy that provides the special meaning to current efforts. Without it, each change would be starting over and all past lessons would have to be painfully relearned.

Both of these dynamics carry powerful emotional charges, and both generate ambivalent feelings.

Succession raises both hope and anxiety: *hope* that new solutions can be found, that youthful energy will revitalize old routines, that the future will be better; and *anxiety* that there are no new solutions, that the new leaders are not up to the task, that the dangerous and untried new directions will be less successful than the techniques of the past.

Continuity arouses both security and frustration: *security* that there is a solid family legacy on which to build new efforts, a pride—sometimes nostalgically enhanced, sometimes realistic—in the reputation derived from historical accomplishments; and *frustration* with the constraints of tradition, the need to comply with the "dead hand of the past," and the burden of comparison with past moments of glory.

While organizations are constantly changing and evolving, and in some ways succession and continuity are built into every act in some small way, the intensity of these dynamics is enormously greater at times of major transition. Changing people forces the issue.

This suggests a connection between history and governance regarding the degree to which foundations are able to change. It appears that the typical balance between succession and continuity in foundations is different from that in operating businesses. In business, there is a primary attention on the succession part—the selection and training of the new leaders, the "letting go" and "taking over," and the political conflicts and strains that all of this causes. Good business performance requires the clear transfer of power and the new leader's ability to act. It is hard work to get the system to also focus on the continuity part.

On the other hand, in foundations it may be more natural to focus on continuity: legacy, original intent, mission, and respect for the hierarchy of age and generation in the family. That is, foundations may have more trouble dealing with the inherent discontinuity that accompanies the needed changes. If so, this has many implications for how to help families understand the transition process and attend to the necessary preparation and work.

For example, the foundations in this sample were very reluctant to address policies that affected changes in board makeup. Only twelve of them had bylaws which set term limits or a retirement age for directors. Even more dramatic, of those twelve, the rules were only actually enforced in four cases. Often the junior generation or the professional staff were uncomfortable about the breach of policy, but did not feel it was possible to bring it up.

Longevity may be a blessing for individuals, but it is a mixed one for institutions. Some leaders maintained their positions well into their eighties, which probably would not happen in their family companies and which creates a real problem for succession in their foundations. A generational leader of eighty-five has children in their fifties and sixties (and grandchildren in their twenties and thirties). Even if they are active in the foundation, the next generation's opportunity for real leadership is passing them by.

Staying on as director or chair of the trustees in one's seventies and eighties sends a message that the foundation is a personal arena, a platform for the demonstration of family hierarchies and status, rather than a continuity-focused working organization. This is independent of the skills of the leader, his or her energy and commitment, the family relationships, and the consensus within the trustee group on program and mission. Whether or not the senior leader is doing a good job, there are consequences of refusing to step aside.

If the middle generation is shut out of leadership, or even participation, during their high energy and productivity years, they may never return. That is a high price to pay for protecting parental egos.

Some foundations need to use their best creativity to design governance roles that honor the wisdom and experience of senior family members while moving authority and responsibility to the next generation. Then, having designed such a system, they need to find the courage to implement it.

This foundation has traversed a rocky road over its four generations, but it has persevered at modifying and modernizing its successor development program until all the current participants feel it is a model system. Three-year terms, renewable only once, are strictly enforced for all board members. Family members are actively recruited and welcomed when they reach the age of twenty-one, and they are greeted with an extensive and formal program of apprenticeships, mentoring, and training sessions. There is a gradual series of opportunities for involvement leading up to election to the senior foundation board. Most of the senior generation are no longer trustees, but instead participate as mentors and advisors. Perhaps as a result, the "next generation enthusiasm" for this foundation was among the highest in the sample.

In summary, the foundations that were the most successful in successor development:

- Treated successor development as an organizational imperative, not a family prerogative. That meant they overcame emotional resistances, and dealt with continuity alongside of mission, strategy, program, governance design, and the overall collective Dream for the future of the foundation.
- Educated themselves on exemplary programs from other foundations, but adapted their effort to the realities of their own families.
- Included both grantmaking education and governance education in their development program.

NOTE

1. The best summary is still found in Lansberg (1988).