DEVELOPMENTAL STAGES AND TRANSITIONS
IN FAMILY FOUNDATIONS

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

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

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

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

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

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

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

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

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

TRANSITIONS: CHALLENGE AND OPPORTUNITY

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

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

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

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

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

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

SIX COMPONENTS OF TRANSITIONS

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

Preparation: The Accumulation of Developmental Pressures

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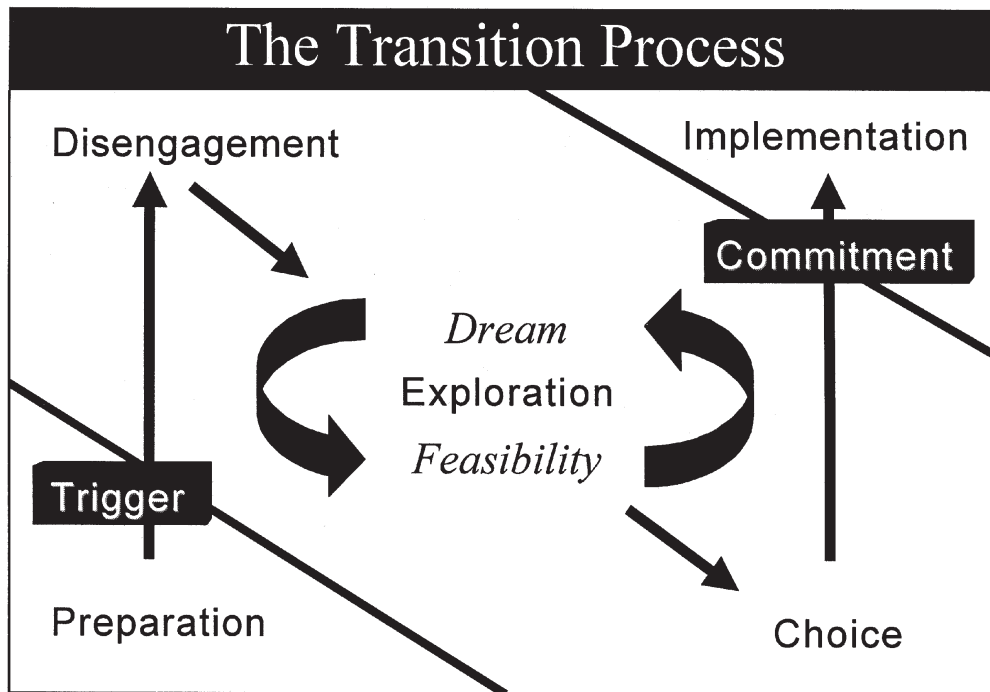
Figure I.1. The Transition Model

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

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

The Trigger

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

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

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

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

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

Disengaging

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

Exploring Alternatives

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

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

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

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

Choosing

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

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

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

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

Commitment to the New Structure, and Implementation

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

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

STRUCTURE OF THIS VOLUME

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