MANAGING *a* FAMILY PHILANTHROPY

By Joseph Foote
and Claude O. Norcott

When Gilbert Mead's father, a Wisconsin paper industrialist, died in 1988, leaving Gil, then 58, and his four grown children a substantial inheritance, he and his wife, Jaylee, did what they thought was right: they decided to set up a philanthropic foundation.

Gil discussed this project with each of his children, and all agreed to participate in the new venture. Gil and Jaylee would make significant annual gifts to begin building up an endowment, and Gil's children would also make annual contributions out of their increased income. "We felt they would have a vested interest," says Jaylee. They would manage it themselves: Gil would be president, Jaylee vice president and grants coordinator, a daughter in Maryland treasurer, a daughter in France corporate secretary, and a son, who has a business-accounting degree, financial officer (he would also prepare the annual 990-PF's).

Thus was born the Gilbert and Jaylee Mead Family Foundation, now an established supporter of performing arts and social programs in Washington, D.C., and suburban Maryland, with assets of $8 million and 73 grants in 1998 totaling $400,000.

Initial grants were to performing arts groups in the Washington area. This interest stemmed from Gil and Jaylee's participation since 1970 in an employee theater group at the NASA Goddard Space Flight Center in Greenbelt, Maryland, where both were employed for many years as research scientists (they have both since retired). Soon the focus was expanded to encompass several of the children's interests: education K-12, strengthening families, and poverty-related issues. Criteria for board membership were set up: an annual financial commitment to the foundation, assistance to grantseekers in preparing meaningful proposals, participation in the evaluation and review of proposals, attendance at board meetings, and follow-up site visits to grantees. Two years ago they hired a part-time grants manager to assist with the expanded workload.

In facing issues of both family and philanthropy, the Meads offer an example of one family's hands-on approach to developing a management and structure appropriate to their foundation. Moreover, the Meads successfully linked family values—involvement of the children, a systematic approach to grantmaking, and so on—to their management style and structure.

This chapter explores how the unique qualities of a family influence the management of its philanthropy, what is involved in managing a family philanthropic enterprise, how the family can step forward to provide that management, and how the trustees can find additional sources of management help if they need it.

I. Why Managing a Family Philanthropy Is a Unique Undertaking

In most families, the unifying value is mutual love, caring, and nurturing. Everybody is equal. Everybody is treated fairly. If some member is weaker, the rest of the family will frequently defer to that person and will put in extra time, money, effort, and energy to try to bring him or her up to the same level as the others. The family will tolerate a member who does not always do well.

A FAMILY PHILANTHROPIC ENTERPRISE, LIKE A FAMILY BUSINESS ENTERPRISE INVOLVES *goals, organization,* AND *management structure.*

A family business, by contrast, has a common motivation to compete and succeed by having the very best and being the very best at whatever it does. A business cannot tolerate people who do not perform, who are not capable. If they do not perform, there is no role for them in the business.

When a donor and family decide to put aside family resources, moreover, something very special happens, something that introduces a third element into the mix. The donor and family now experience the extraordinary privilege—and responsibility—of deciding how those resources will be used in the public interest. The donor and the family have now invested money in a public trust.

When a family foundation attempts to put these three pieces together, they sometimes clash, making the demands of the family versus the demands of the institution or organization difficult to address simultaneously. This concept is important because management of a family philanthropy usually requires finding a balance between family considerations and what would ordinarily be considered best management practices.

To address this issue, family foundations may need to find some means for allowing greater participation than might otherwise be acceptable in a business, without hampering the capacity of the organization to accomplish its mission. Still, trustees know that family foundations are not businesses and applying business management criteria might be inappropriate. Instead, the approach for managing the foundation might be to use the best and most willing people the family has to offer and to ensure that every family member, regardless of ability, has the opportunity to play a role in the philanthropic enterprise.

Deciding on Philanthropic Goals, Appropriate Vehicle, and Management Structure

A family philanthropic enterprise, like a family business enterprise, involves goals, organization, and management structure. The questions for donor and trustees are: How clearly have we stated our goals, and how focused is our management on attaining those goals? A brief comparison of a hypothetical family philanthropy and business is instructive here.

The donor and family may seek success on all three fronts:

- *Philanthropy*: a philanthropic goal that is noble, establishes the family as a community leader, and perpetuates a family tradition;

	Family Philanthropy	Family Business
Goal	Support education	Attain 10% market share
Vehicle	Private foundation	S Corporation
Management Structure	Strong president; board that meets only quarterly; tight administrative control over grants; tight emphasis on outcomes	Strong executive committee; decentralized decisionmaking with maximum emphasis on initiative

- *Organization*: a giving vehicle that provides optimal control of grantmaking and investment, offers reasonable tax advantages, is flexible and changeable to accommodate family members' interests, and whose governance can respond to the vision of succeeding generations; and
- *Management*: a structure that supports donor-couple control in the beginning stages, yet is malleable enough to exploit family members' skills and draw on additional expertise from outside professionals as needed.

The trustees can examine how the board and the family make management decisions. Does it manage by command and control? Does it prefer to develop consensus? Does it make decisions in an orderly manner, based on information and debate? Nuts and bolts issues are important. How large will the grants be? What can realistically be accomplished with these grants? What kinds of grants will be made? Will grants support nonprofit organization operations? Will the foundation undertake only new programs? Will it support capital campaigns?

This process is usually best completed before the donor decides on an appropriate giving vehicle. The donor may decide among a number of choices, including these:

- Family foundation;
- Operating foundation;
- Donor-advised fund in a community foundation;
- Supporting organization in a community foundation; or
- Agency endowment.

Donors can also give as individuals, of course, or through the family business. They can join a donors' collaborative, or set up a donor-advised fund in a public foundation or financial institution. The choices are considerably more numerous than they were just a few years ago. This chapter does not attempt to analyze the advantages and disadvantages of each choice. Potential donors are likely to make a thorough, in-depth investigation of all aspects of giving vehicles before deciding how they want to proceed. (For resources on forming philanthropic entities, see Chapter V.)

MANAGEMENT SHOULD *help* THE TRUSTEES TO *ensure* THAT THE PHILANTHROPIC ENTERPRISE *endures* AND MEETS ITS PUBLIC, PRIVATE, AND FAMILY OBLIGATIONS.

The donor and family may find it useful to ask a friend or advisor from the philanthropic world to sit in on some family discussions of process, vehicle, and management. Management is a key consideration right from the beginning. If a family has strong internal resources, it can run its own operations. If it has no internal resources, no family-member managers, and not much capital, it may wish to consider one or more of the other approaches discussed on pages 15-21.

What's Involved When a Family Enters Philanthropy

Some people consider management of a philanthropy to involve keeping up with correspondence, writing checks and maintaining books, and filing requisite tax forms. Certainly management ensures that these tasks are accomplished, but for a family to focus on this level of management is to miss a key point.

Rather, management should help the trustees to ensure that the philanthropic enterprise endures and meets its public, private, and family obligations. A family philanthropy that is well managed and keeps its goals in mind can support trustees in critical ways. The family will understand and promote the enterprise, family members will gain interest and begin to devote their energies to foundation activities, and the family may gather together around a high, noble purpose to help other human beings with resources that the family has been blessed to be entrusted with.

Classic Case: Family Both Governs and Manages

The Tow Foundation of New Canaan, Connecticut, offers the classic example of a foundation where the donor couple and family members have joined together to fashion the values and goals by which the philanthropy is managed. The foundation was established in 1988 by the donor couple, Leonard and his wife Claire, who run the board of directors. The board consists of Leonard as chair; Claire as president; two of their three children (the third child has also served on the board); and two nonfamily members. Both nonfamily members are long-time business associates. One, the chief financial officer of the family business, serves also in that capacity for the foundation and manages the portfolio (1998 assets: $20+ million). The other, the family business' general counsel, serves in that capacity for the foundation. Both provide their services pro bono publico.

Emily Tow Jackson, the donor couple's daughter, who is paid for her work as executive director, handles management. She recently hired an assistant. The two also write checks, maintain the books, and deal with correspondence out of their office located in the family business (at no cost to the foundation).

The advantages of having a family member, who is also a director, manage the foundation are clear to Jackson. "I can understand intimately the wishes of the family," she says. "I grew up with the family business, and I know the family mission to try to give back to the community. When I look at prospective grantees, I have a much better idea of what the board will like or dislike."

"My parents had friends whose child was saved by a doctor," Jackson recalls. "The friends learned about research the doctor was doing and asked my parents if they cared to support cutting-edge research in the field. My parents became intrigued. They made a few large contributions for a few years. The foundation took on that work. Then the children became involved, we had a retreat, and everybody became excited about supporting social services in our local area, disadvantaged children, and strengthening families. Now we split grants between medical research and those social services."

II. Changing and Growing Over the Years

Families grow and change, and so do their philanthropic enterprises. Because most family foundations are established in perpetuity, it becomes important for donors to consider their hopes for the family and the philanthropy, and how these hopes might be affected by changes in the family and in society as a whole over the generations to come.

Similarly, donors and trustees need not feel locked in with their current decisions on philanthropic goals, vehicles, or management structures. What works today may not work five or ten years from now.

When a dramatic event occurs, the trustees may see a need to reconsider the enterprise from the ground up. Such a dramatic event may involve the death of the donor, a sudden and very steep rise in asset value of the endowment, or the rapid and unexpected dispersion of family members to distant places. Sometimes transitional events happen together, as in the death in 1996 of David Packard, co-founder with his wife of the David and Lucile Packard Foundation. When Packard died he left stock worth an estimated $7.2 billion, which instantly raised the asset level of the foundation to approximately $9 billion. Another example is the J.A. and Kathryn Albertson Foundation, which rose from $38 million to more than $1.2 billion with Kathryn Alberston's gift of Albertson stock in 1997. Both the Packard and Albertson Foundations experienced heavy pressures to adjust management capacities to cope with the new environment.

Dispersal of family members also changes management requirements. Gathering family trustees for board meetings is difficult to arrange and expensive for the foundation. Family trustees may want to make grants in their own communities. One solution is for one trustee to take on management duties, holding meetings on a schedule determined well in advance, and trying to accommodate the individual charitable ideas of each trustee. Another solution might be to retain a professional consultant, philanthropic management firm, or bank trust department to handle bookkeeping and tax compliance, office administration, and routine grants management.

Whatever the circumstances, a donor and family can analyze broad management concerns by considering the following four questions:

TRUSTEES GOVERN AND *set* POLICY, THE CHIEF EXECUTIVE *or* DIRECTOR CARRIES OUT THE POLICY, AND THE ADMINISTRATOR *conducts* ROUTINE BUSINESS OPERATIONS.

- What are the foundation's management requirements?
- What capability does the foundation need to meet those requirements?
- What resources are available from within the family?
- What additional assistance must the foundation find from outside the family?

Trustees may find it useful to revisit these four questions from time to time. Such a reconsideration might be in order when, for example, board membership begins to involve a new generation, market fluctuations significantly change the level of assets up or down, or family pressures build to widen or alter the scope of philanthropic interest.

In addressing the four questions posed above, it is useful to look first at the family philanthropy's management requirements.

III. Determining Management Requirements and Needed Capabilities

Studied, analyzed, and the subject of countless workshops and business executives' self-improvement seminars, the term "management" carries with it a special aura these days. For most family philanthropies, management means getting done what the donor and trustees want to get done, reasonably on schedule and for a reasonable cost.

In fashioning answers to the four questions posed above, an inventory of the management needs of the family philanthropy is a logical place to start. The question involves what needs to be done.

Question #1: What Are the Foundation's Management Requirements?

Trustees govern and set policy, the chief executive or director carries out the policy, and the administrator conducts routine business operations. In a philanthropic enterprise, trustees generally consider these management functions as basic and necessary:

- Package eligible grant proposals for trustee review;
- Monitor payout, tax filings, and grant payments to ensure that legal requirements have been met (the accountant is chiefly responsible here);
- Prepare annual budgets and reports;
- Handle public relations; and
- Keep office technology appropriately updated.

Administration, a subset of management, covers these functions:

- Pay bills, keep the books, and maintain files;
- Handle phone calls and correspondence;
- Acknowledge proposals and route them as instructed; and
- Maintain grant files, send out self-evaluation forms, and route grantee reports as instructed.

Like a small business, all of these functions can be vested in one person who can be the donor or a trustee. If a donor and family decide to assume some or all management responsibilities, they can design their management structure. For example, they can designate a president to whom the staff director, general counsel, financial manager, and investment manager report. The staff director can oversee an "administrative assistant" who handles correspondence and routine clerical work, a "grants administrator" who keeps grant applications and awards in order, a "program officer" who scouts for new grantee prospects, and a "communications officer" who manages public relations and publications. Any or all of these people can be a family member, unpaid, and a trustee, all at the same time. Or some can be family, others outside professionals, some paid, and so on.

In short, trustees are not bound by rules or convention in setting up their management structure. It is helpful, however, to review classic models of management for family philanthropic enterprises.

A Family Foundation Updates Its Management

After more than sixty years under a relatively informal management structure, run essentially by the board, the Ellis L. Phillips Foundation of Boston moved in the early 1990s to formalize its structure. First, the board created the job of executive director and hired a nonfamily professional to fill it. Second, it formalized professional practice and institutional values by adopting:

- A mission statement and revised application procedures, published in the annual report;
- An application evaluation process and grantee self-evaluation (post-grant) procedure; and
- A statement of directors' responsibilities.

A new approach to management has not meant less involvement for the board. On the contrary, active involvement between meetings is viewed as the best way to advance the work of the foundation. "I've always been interested in building on the strengths that individual board members bring," says director Ellis L. (Larry) Phillips III. Since a June 1998 retreat, each board member has been encouraged to come up with one project that he or she would "find, unearth, see through, bring to the board, and evaluate—shepherd through the entire project." Although not a requirement, Phillips notes, the exercise has great benefit: "If you do one, you see it's a really good experience."

Question #2: What Capability Does the Foundation Need to Meet Their Management Requirements?

"Donors and trustees often express two fears about management," observes Alice Buhl, a former executive with the Council on Foundations and now an independent advisor to foundation boards. "One is, they don't want to be stuck with high overhead, such as offices, or long contracts with people they don't want or don't need or don't know how to manage. Their second fear is that someone is going to tell them where to give their money. An entrepreneur donor who has made a lot of money in a highly competitive business usually doesn't find that very helpful."

A WAY TO DEAL *with* POTENTIAL TENSIONS, TO GET THE JOB DONE, AND TO *ensure* THAT DONOR AND TRUSTEES ALSO *fill* ROLES THEY DESIRE, IS TO BUILD A MANAGEMENT FRAMEWORK BASED *on* CLASSIC MODELS.

So a tension may arise between staff members, even when they are family members, and the donor and trustees. Where the donor and trustees develop and know their own style, they should experience no difficulty in filling management roles with compatible people.

A way to deal with potential tensions, to get the job done, and to ensure that donor and trustees also fill roles they desire, is to build a management framework based on classic models. Three management models that stretch across the spectrum—administrator, consultant, and director—were developed by Buhl and Judith Healey, the latter a long-time consultant and advisor to the Weyerhaeuser Family Foundation in St. Paul, Minnesota (1998 assets: $16 million) and numerous other family foundations boards. Trustees or other family members can fill any or all of these management positions, Buhl and Healey point out.

The application of these models is entirely up to the donor and trustees, who can mix and match different functions, roles, and people to suit their needs.

Here are brief descriptions of the three models.

Administrator

An administrator acts as a secretary or administrative assistant who pays the bills, keeps the books, and forwards grant applications and other correspondence to trustees. The administrator makes no grant decisions although he or she may reject proposals that lie outside the guidelines or geographic area of the foundation. The trustees manage the grantmaking. The first administrator is often a long-time trusted employee of the donor or in the family business.

This arrangement tends to work well for the entrepreneur donor, who knows what's going on in the community and wants to direct the charitable dollars. The family typically knows the geographic community well, too. With the administrator, the donor and trustees remain directly in charge of distribution of funds and don't need any help in that regard.

A good example of this model is the Albert Kunstadter Family Foundation, located in New York City; the administrator handles all routine foundation business, which frees the trustees, all of whom are family members, to be active in grantmaking in education, the arts, and international affairs.

This model can accommodate many grantmaking styles, ranging from "checkbook" philanthropy, in which the administrator writes checks periodically, often to the same nonprofit organizations, to the more involved approach taken by the Kunstadter family.

Consultant

If the trustees think they need additional help, they may find the consultant approach useful. Here, the trustees hire someone who has expertise in how to articulate philanthropic goals, set up program areas, identify community needs, screen grant applications, and recommend promising grantees. The consultant sorts through proposals and prepares packages for the trustees, who make final grant decisions.

The trustees may delegate considerable authority to the consultant. Clearly, the consultant must be keenly sensitive to the personalities and values of the donor and trustees. The consultant can become the link between family values and grantmaking management. "It is very important that a family foundation reflect the philosophy of the family," says Martin S. Kaplan, a senior partner in the Boston law firm of Hale and Dorr LLP, and a trustee of two family foundations—the Germeshausen Foundation, located in Boston, and the V. Kann Rasmussen Foundation, which is funded by a family in Denmark and makes environmental grants in the United States. "Outside advisors should play the critical role of drawing out the family's interests and goals, sharing numerous philanthropic opportunities with them, and encouraging the family to analyze the values they have expressed in the past and identify those they wish to emphasize in the future."

The consultant approach works well where the trustees lack the time to manage the grantmaking, or where trustees desire a more thoughtful or experienced analysis of grant opportunities.

One advantage of the consultant model, at least where the consultant is a non-family professional, is that the trustees can usually terminate the arrangement on short notice. Nobody is locked in for the long term.

A number of small consulting firms are appearing around the country to provide these services. Many of these firms provide administrative services; typically, however, they do not also offer investment management, which is highly specialized (see Chapter III). The foundation itself may have an administrator who handles ongoing responsibilities and still use consultant services for other purposes.

Experienced people in the field value the consultant role for the independence that it gives them. Conversely, foundations that hire consultants get the benefit of that experience without the long-term commitment attached to hiring a full-time, permanent employee.

Director

The board may hire a director for any of several reasons. Management of foundation affairs may simply have become too much work for the trustees. The trustee-manager may have retired or moved away. The time may have come to centralize in one person the work being done by several.

The director is the chief executive officer of the foundation, typically reporting to the board. The board can decide on the scope of the director's authority, and delegate appropriate power to carry out that authority. Some family foundations merge the roles of board president and director—especially in the early years of their development: an example is Jane Carpenter of the Carpenter Foundation in Medford, Oregon (1998 assets: $18 million). Until the Carpenter Foundation's assets reached the $10 million level, Jane Carpenter was both board president and foundation director. Today the foundation has a paid program officer to shoulder some of the work. Other foundations may have the director report to the board and assume more limited scope of authority. In most cases, the director is responsible for office and financial administration and grants management (although not the awarding of grants—a responsibility that the board must, by law, retain). General counsel and the investment manager may report to the director, although they may also report on occasion directly to the board.

The director may be a family member, as is Casey Woodard of the Woodard Family Foundation in Cottage Grove, Oregon (1998 assets: $6 million), or a nonfamily professional, such as Sarla Kalsi of the Irwin-Sweeney-Miller Foundation in Columbus, Indiana (1998 assets: $4 million). If delegated substantial power, and especially if not a family member, the director needs superior people skills in dealing with the board. "The director must be able to be flexible with the family, encouraging and supporting their leadership whenever possible and also providing leadership," Buhl says.

Family Trustee-Manager Maintains Professional Stance

As a grandson of the founder and son of the board chairman, Casey Woodard is one of seven board members, all of them family, and also serves as vice president in charge of operations for the Woodard Family Foundation.

Serving as both trustee and manager, Woodard respects the roles of family members as governors. "I am careful to be considerate of the board," he says, "and I run everything by them. In many respects, I am their employee. It is an interesting dynamic, because I am a family member and an equal. But I am careful to treat our relationship in a professional way."

"The arrangement works well because I have great respect for the way a system must work to function properly," he adds. "It is important for me to be very cognizant of that dynamic and that relationship."

The foundation receives administrative support, in bookkeeping and accounting, from the family business. "I do much of my own typing," Woodard says. "With computers these days, it's quite easy to be your own secretary, and I provide those services on my own." For information on the use of computers in foundation management, please see Appendix A.

Family Member Directs Private Operating Foundation

Management of an operating foundation can add substantial responsibilities for the executive director, who must run a program as well as a foundation. Management of The Volgenau Foundation of McLean, Virginia (1997 assets: about $780,000), is the responsibility of the donor's daughter Lisa Volgenau, who is also a board member. Working part-time, she is the only paid employee of the foundation.

"We're working with The Nature Conservancy on a conservation model for sustainable development," Volgenau says. "I'm responsible for all aspects of our partnership agreement, management of additional projects on the Eastern Shore of Virginia, and all other foundation activities." Volgenau handles correspondence, preparations for meetings, and other administrative matters. She also represents the foundation at meetings, conferences, lectures, workshops, and networking gatherings, on both philanthropic and conservation matters. She has the assistance of an accountant and an attorney who specialize in working with nonprofit organizations. The foundation is also planning initiatives to educate inner-city children and to enhance cultural opportunities for the general public.

Some Families Retain a Full-Time Director from Outside the Family

Circumstances may bring a donor and family to the point of investing much authority in a full-time, paid director who will assume responsibility for all aspects of foundation operations. Such circumstances might include a significant increase in assets, dispersal of family member-managers, expansion of program reach, or other reasons. Families in these circumstances may want to retain the governance function by continuing to control the board, but step back from management and delegate operational authority to a powerful director. This person may also be called the president of the foundation and may sit on the board (sometimes ex officio). By virtue of family control of the board, the foundation remains very much a family foundation. Furthermore, the family may, if circumstances change in the future, return to staff management by family members. Use of a powerful director is not a result of evolution of a family foundation but a product of circumstances.

The Z. Smith Reynolds Foundation, located in Winston-Salem, North Carolina, is a case in point. The trustees of this venerable family foundation, established in 1936, hired a top professional in the field, Thomas W. Lambeth, in 1978, as executive director. The trustees chose this route in part because management of a foundation this size (1998 assets: $430 million) requires full-time executive talent. Some family foundations in that asset range have such talent in the family, but the family talent must also be willing to serve. Lambeth makes sure that roles and relationships remain clear.

"I consider this a trustee-driven foundation," Lambeth says. "They allow the executive director to play a strong leadership role, but I am very careful to ensure trustee ownership of every major decision we make. We have a very collegial kind of operation, of trustees and staff. It's helpful when everybody's pretty clear about what they're there for, and don't get into arguments about who's money it really is."

The twelve-member board is half family and half nonfamily, and they differ in their particular interests and levels of involvement. "The more the trustees are involved, the better," Lambeth says. Trustees accompany staff on site visits, attend foundation-convened activities around the state, and participate in the full range of other foundation activities.

"An outside executive director can work well," says Lambeth. "But I can cite many foundations that have excellent executive management from family members. An argument might be made that an outsider does not carry any of the baggage that a family member might bring. An outsider can represent all of the trustees, and be impartial, and be perceived as impartial," he says. "I have seen other foundations where family trustees were playing out roles based on family emotions or hurts or scars of the past, and that's one thing an outside director does not bring along."

"I see some very successful ventures in which the family's daily control seems extraordinary," he adds. "I've also seen very successful ventures where the family did want to just come together once or twice a year and hear about what their family foundation was doing, and leave it to other people for the rest of the year. And in both approaches, I've seen things that didn't seem to work."

THE *use* OF FAMILY MEMBERS AS FOUNDATION MANAGEMENT STAFF IS THE *most* COMMON SITUATION AND THE SOURCE OF COUNTLESS ANECDOTES *in the* FAMILY FOUNDATION COMMUNITY.

IV. Using the Family as the First and Finest Resource

The use of family members as foundation management staff is the most common situation and the source of countless anecdotes in the family foundation community. Myriad cases attest to the advantages of the arrangement: family members have a keen sense of the donor's mission and goals, can handle other family members on a peer level, may work for less pay, and often bring singular passion and commitment to the endeavor.

At one time, it was expected that a daughter of the family would assume responsibility for the family's philanthropy. Sons would often be moved into the family business. But that picture has been changing for several years and many male family members now provide staffing for the giving program.

"The more common family staffing situation is very positive," says Alice Buhl. She tells of two women who staffed their family's foundation and disagreed frequently. A consultant talked through the problem with them, and with other family members, and suggested that a young man in the family—"whom everybody adored"—become staff director. "He's taken over now and they're all happy," Buhl says. "They all trust and like him, and that's more important than salary or anything else."

Question #3: What Resources Are Available From Within the Family?

Today, most families have members with most or all of the skills required for foundation management. Some can help with legal issues, some with financial, some with grantmaking, and the like. For instance, nearly every family has a computer or technology "specialist"—particularly families with teenagers. Moreover, family members with good academic, clerical, or people skills can quickly become effective at conducting site visits, reading grant applications, answering telephones, or accomplishing other day-to-day tasks.

An example of a foundation that found a competent manager within the family is the Russell Family Foundation.

Russell Family Foundation: Linking Management to Core Values

The Russell Family Foundation is up and running, on its way to becoming one of the largest family foundations in the Pacific Northwest. The central management goal of the family is to link daily operations to the core values expressed by the people who built the family business.

George F. Russell, Jr. went into business with his grandfather, Frank Russell, in a small mutual funds business in 1936. Since joining the company, George and his wife, Jane T. Russell, have built Frank Russell Company into one of the world's largest asset strategy and investment management firms, providing investment advice, products, and funds to institutional and individual investors in more than twenty countries. Frank Russell Company is the largest consultant to pension funds in the world.

In 1994, George and Jane Russell formed a private family foundation with nominal funds. The January 1999 sale of Frank Russell Company to Northwestern Mutual Life Company enabled the family to endow The Russell Family Foundation.

Jane Russell is president of the foundation and, at this time, all trustees are family members. Sarah Russell Cavanaugh, a daughter of George and Jane Russell, is the executive director. "We started with two employees," says Cavanaugh, "and we expect to grow to ten to fifteen employees in the next few years." The board is meeting with other family foundations in the West for advice on implementation strategies and mission statement definition. Cavanaugh is overseeing the development of human resources and other management policies in preparation for the build-up. The foundation has an office in Seattle and is working on the initial stages of system and processes development.

"George and Jane Russell believe strongly in the values of honesty, integrity, and service to community," says Cavanaugh. "The trustees intend that the foundation will be managed with these core values in mind at all times."

Still, not every family has all of the resources and expertise required to fulfill foundation management requirements. When that is the case, it is time to look for assistance from others.

Springs Foundation: Engaging Leadership from Family and Nonfamily

Some foundations make use of both family and nonfamily managers, as circumstances require. An example is the Springs Foundation, founded in 1942 by Elliot W. Springs and members of the Springs family and located in Lancaster, South Carolina (1998 assets: $52 million). The donor first had his long-time family business attorney handle the foundation, and then in 1972 he hired Charles A. Bundy, a family friend, as president. Bundy reported to the chairman, then later to the chairman's widow—who is a daughter of the donor—as board chair, and then turned over the reins to the donor's grandson, Will Close, in 1997. Close works full-time and is paid a market-rate salary. The foundation supports health, recreation, education, and social services; the board wants to maintain close contact with the communities it serves, and therefore operates satellite offices staffed by Bundy in semi-retirement in Lancaster and a retired officer of the family company in Chester. A staff member handles the labor-intensive student loan program (150 students who have about $1.7 million out in loans at any given time). The Springs Company office accounting department maintains the general ledger and the president's executive secretary writes checks. A program director was employed in 1998.

Finding Information

Selecting new trustees or other family members as management staff is usually handled by the board without outside consultation. Useful sources of information are, however, available. Anecdotes, examples, and even wise counsel may be found among other experienced family philanthropists in the community. The National Center for Family Philanthropy can help trustees locate one of these families and acts as a central resource for information on these kinds of subjects, which are highly specific to family philanthropy and tend not to be included in other resource collections on philanthropy and grantmaking. Job descriptions, personnel policies, and referrals to other family foundation staff members are available from the National Center.

LOOKING TO PROFESSIONALS WHO *are* NOT FOUNDATION TRUSTEES OR FAMILY *members* FOR ASSISTANCE IN MANAGING A FAMILY FOUNDATION *has* BOTH PLUSES AND MINUSES.

V. Exploring Additional Options for Resources

For most foundations, the decision to look beyond family and friends to obtain help in managing day-to-day activities is momentous and exciting. Usually, this decision signals a point in foundation life when grantmaking activities have become so successful that the associated workload can no longer be handled by volunteers (no matter how dedicated); a moment when the foundation endowment has skyrocketed through a bequest or an extraordinarily successful investment program; or a time when family members have become so geographically dispersed or busy with their personal lives that they can no longer devote the time needed to manage the organization properly.

One important consideration in looking beyond family and friends involves the choice of giving vehicle. Some families find it useful to use a donor-advised fund, for example, which they can place in a community foundation, public foundation, commercial financial firm, or other organization. Other families may prefer a trust arrangement. In many cases, these kinds of giving vehicles minimize management concerns for the family. Still other families use these giving vehicles for a period of time and then move to a different vehicle when circumstances change. Some of these options are described below.

Question #4: What Additional Assistance Must the Foundation Find Outside the Family?

Looking to professionals who are not foundation trustees or family members for assistance in managing a family foundation has both pluses and minuses. On the plus side, the addition of professional staff will take some of the day-to-day pressures off family members and trustees, leaving them more time to concentrate on their leadership and policy roles and on improving the efficiency of foundation processes. In addition, carefully selected and qualified staff will likely bring to the foundation:

- A fresh point of view about how to better operate and meet the needs of constituents;
- Special expertise in program areas;
- Experience in the grantmaking and grants evaluation process; and
- An impartial voice that is not allied with a particular family member or branch of the family.

As noted, these benefits come with a price. Adding staff or contracting for help to manage elements of a foundation's activities costs money—whether in the form of salary or one-time service fees. Furthermore, professionals brought in from the outside usually come with little understanding of family history, traditions, and values. In the case of an executive director or other staff hired for the long run, knowledge will come with time. In the case of a short-term contractor—a leader for a board retreat or a specialist retained to prepare foundation documents or an investment policy, for instance—trustees may need to spend a significant amount of time ensuring that outcomes are appropriate to foundation missions, values, and traditions. Finally, bringing in staff, whether on a permanent, part-time, or contractor basis adds two new dimensions to family and trustee dynamics:

- Decisions must be made as to who will oversee the work and work products of the new personnel; and
- Trustees must be comfortable with the loss of authority, power, and privacy that is inevitable when professionals from the outside enter the inner circle of family foundation life.

ADDING STAFF OR CONTRACTING *for* HELP TO MANAGE *elements* OF A FOUNDATION'S ACTIVITIES COSTS MONEY—WHETHER IN THE *form* OF SALARY OR ONE-TIME SERVICE FEES.

How Can Foundations Find and Retain Professional Assistance?

No matter how large or small, every foundation has access to outside professional management. The question is, therefore, what is the best path to finding and retaining the individual or organization that will best suit a foundation's needs and administrative budgets? Following are several helpful places to start a search for management assistance.

Family Business or Family Office

It may be possible to situate the foundation in offices of the family business and pay fees for management and administration, office equipment, and clerical help, or arrange for the business to provide management and administrative support at no cost.

A family office can provide the same assistance as the family business. Because family offices generally focus on investments, they are particularly well suited to providing advice on foundation investment policies and investment advisors. One way to use a family office to foundation advantage would be to ask that it take on the investment advisor role for the foundation.

A Family Office Offers Management Services

The Woodcock Foundation and the Pinewood Foundation, both family foundations, are among the clients for advisory and management services of the

Philanthropy Department of Rockefeller Financial Services. RFS is a private company that, in conjunction with The Rockefeller Family Office, Rockefeller & Co., provides a full range of family financial and investment services to members of the Rockefeller family and other families, individuals, family foundations, and trusts.

Woodcock and Pinewood rely on services such as research, proposal/grant review and evaluation; site visits, docket preparation, planning, and facilitation of foundation trustee meetings; recommendations and processing of grants; organizational development for new and expanding foundations; grants management, including recordkeeping and reporting; processing of proposals; facilitating and administering funding collaborations; and foundation reporting and compliance. The Department also provides services in intergenerational planning and involvement; assists in family issues related to philanthropy, family foundations, and estate planning; assists with special projects and protecting the confidentiality and privacy of donors, as requested.

Donor's Family Office Manages His Foundation

The Peter Norton Family Foundation illustrates how one donor evolved in his approach to management. Peter and his wife, Eileen, started the foundation in 1987; initially, the couple "sat around the kitchen table" responding to the occasional request for a contribution. They gave away about $200,000 to $300,000 a year in this manner, until Norton sold his company, Peter Norton Computing, Inc., in 1990. At that point, he decided to set up a family office and hired Anne Etheridge to be administrative director of the Norton Family Office and simultaneously serve as executive director and secretary/treasurer of the Norton Family Foundation.

Located in Santa Monica, California, the family office now manages the public and private affairs of the family and provides pro bono operational services and facilities for the foundation. The arrangement enables the foundation to conduct business with no operating costs, which permits it to focus singularly on its philanthropic goals and objectives. As executive director of the foundation, Etheridge manages the grantmaking program for the Nortons. The foundation supports diverse arts, cultural, and humanitarian projects. The grantmaking program expended about $3 million in 1998.

Banks, Financial Institutions, and Law Firms

For a management fee, bank trustee departments can serve as investment managers, reducing the trustees' burden in this area. Some also provide assistance with the grantmaking function. Banks usually limit their management services to philanthropies held in the trust form and may provide such services only where the bank is also asked to manage the investment portfolio.

Most private financial institutions now have departments or specialized groups devoted to meeting family foundation needs. In addition to fulfilling the investment advisor function, they can help with bookkeeping, grants, preparing and filing annual tax returns, and other administrative duties. A law firm that has experience with family foundation-related issues can also be a valuable management resource. Law firms sometimes have excess space that is available for lease. In addition, some may be willing to provide the use of clerical personnel and office equipment—for a fee.

Donors Use Bank Management Services

The Buehler Family Foundation is a family foundation in Chicago with the majority of its board members comprised of Mr. Buehler's descendants. The board has delegated all management functions to the Chicago office of Bank of America. The Bank's Private Bank area manages all aspects of grant administration for the family, which includes serving as the foundation's office, receiving and acknowledging grant proposals, handling all correspondence, maintaining all records, disbursing grant checks, and preparing foundation tax returns. A Bank officer works closely with the trustees in reviewing and consulting on grant proposals, as required. "The Bank essentially does everything except make the final grantmaking decisions, which are made by the trustees," says Arthur Murray, senior vice president in Bank of America's Chicago office. The Bank also provides the investment management of the Buehler Foundation's $23 million portfolio.

MOST PRIVATE FINANCIAL INSTITUTIONS *now* HAVE DEPARTMENTS OR SPECIALIZED GROUPS *devoted* TO MEETING FAMILY FOUNDATION NEEDS.

Donors can investigate bank charitable or foundation management groups that offer such services as charitable trust administration, grantmaking management, and tax filing preparation. Donors can select an appropriate trust vehicle and have the bank distribute grants as well as administer the trust on a day-to-day basis, including filings and recordkeeping.

Financial Institutions Serve Donors

Some donors may already be clients of financial institutions that provide trust management. As some of these institutions are now adding foundation management and administrative services, donors can establish a trust with the financial institution, direct it to make distributions to certain nonprofit agencies, and leave all administration and grantmaking to the financial institution.

Donors also use financial institutions that offer charitable gift funds. Examples are Fidelity Investments Charitable Gift Fund and Merrill Lynch, but other large firms also offer these services. These institutions provide money management, professional estate planning, and rapid response to donor recommendations for grant disbursements. These firms do not provide foundation management services.

The National Philanthropic Trust in Jenkintown, Pennsylvania, holds donor-advised funds (minimum gift of $100,000), and donors can contribute property, fine art, or real estate in addition to cash and appreciated securities to endow their fund. The Trust works with multiple asset managers and administers the paperwork and recordkeeping. It also offers access to other philanthropic donor services.

Law Firm Administers Charitable Trust

The Jessie B. Cox Charitable Trust is one of New England's largest charitable trusts with annual grants of more than $3 million. This trust is administered at

Hemenway & Barnes, one of the oldest law firms in Boston, where two of the Cox trustees are partners. Hemenway & Barnes' Donor Services Office provides consulting, strategic planning, program development, trustee capacity-building, and administrative support. Donors with long-standing relationships with law firms may find them convenient, but they also should take care that administrative expense levels are kept reasonable, because some law firms can be expensive. In the case of the Cox Trust, however, bringing the grantmaking function in-house actually reduced the Trust's administrative expenses.

Community Foundations, Public Foundations, and Collaboratives

When a family creates a family fund within the community foundation, the community foundation handles all investment, grantmaking, accounting, reporting, and communication functions. Family trustees specify the purposes for which grants can be made and can make recommendations on specific grants if they choose. Community foundations can also assist with individual management functions of supporting organizations and family foundations. In addition, community foundations are rich resources for grantee referrals. For donors and families who do not want to form a foundation, a fund in a public foundation may offer advantages, notably in the absence of management responsibilities. Finally, young entrepreneurs and persons of limited wealth seem particularly drawn to participating in collaboratives—groups of donors who pool their grants for increased effect.

A Family Foundation Delegates Management to a Community Foundation

For several years, The Frederick H. Leonhardt Foundation placed management of general operations and its grantmaking program in the Fairfield County Foundation, located in Norwalk, Connecticut. Until the Leonhardt Foundation split into five smaller foundations, the community foundation received and reviewed grants proposals, vetted prospective grantees, sent grant checks, handled all financial administration, set up trustee meetings, and managed all other aspects of the foundation except investment.

In 1997, the Leonhardt Foundation, with assets of $15 million, split into five equal foundations of $3 million each because family members had scattered across the country and a common effort was no longer feasible. Two of the funds, those taken over by the donor's wife and one of her daughters, were placed in the Fairfield County Foundation as donor-advised funds. "We had introduced the donor's wife and her four children to community foundations in locales where they lived," says Betsy Rich, special projects director at the community foundation. "We had tied them into community foundations in Fort Collins, Santa Barbara, and Tucson, and helped them set up donor-advised funds, so they knew about the network of community foundations."

"Community foundations can be a tremendous help to family foundations," Rich observes. Fairfield County Foundation charges by the hour for its management services, plus expenses.

How One Family Uses a Community Foundation

James H. and Connie Maynard of Raleigh, North Carolina, have maintained a small private foundation, the Maynard Family Foundation, for some years. But changes in the tax laws relating to charitable deductions have prompted them to explore other options.

They have settled, for the time being and the foreseeable future, on a donor-advised fund in the Triangle Community Foundation, located in Research Triangle Park, North Carolina. Calling it The InSight Fund, the Maynards contribute annually to enable the fund to respond to requests for grants and to support entrepreneurial nonprofit organizations that undertake community development projects. Besides tax considerations, use of a donor-advised fund gives the family time to consider how and when to proceed with the family foundation.

Governance is a straightforward matter: "My father and mother and I constitute the advisory committee," says Easter Maynard. "But we may add other people, perhaps some from outside the family, from the community."

Management is even simpler: "Using the community foundation is really great," says Easter Maynard. "We don't need to worry about writing checks and other administrative matters. We can focus on the programs, which is what's interesting."

Why would a donor and family turn to a community foundation for management assistance? "That particular family may have a broad philanthropic interest in addressing a specific need in its local community and yet lack the resources—the time, the human capital, the financial capital—to spend on evaluating projects and overseeing financial administration," says Tony Pipa, director of philanthropic services for the Triangle Community Foundation. "A community foundation is a good place to go, where they can draw on the foundation's expertise and knowledge of the community's needs and of projects going on in the community, and match it up with their philanthropic interests. The family stays involved with the philanthropy, while the community foundation does the groundwork and the paperwork."

The Triangle Community Foundation holds agency, designated, and donor-advised funds as well as supporting organizations for families. It can also manage the financial and administrative side of a private foundation's grantmaking: processing and reviewing grant applications, accompanying family members on site visits, and evaluating the success of projects that are ultimately funded. Community foundation staff often can provide valuable advice to the family trustees, who make final grantee selections. The family often does retain some administrative functions, as it chooses, such as responsibility for investment management, writing checks to grantees, and filing tax returns.

WHY WOULD A DONOR *and* FAMILY TURN TO A *community* FOUNDATION FOR MANAGEMENT ASSISTANCE?

Donors Use a Public Foundation to Manage Funds

Donors can place their advised funds with a public foundation such as the Tides Foundation in San Francisco. Established in 1976, Tides manages grantmaking for more than 120 family and individual donor-advised funds and small foundations that are dedicated to social change. Donors benefit from the expertise of Tides staff in finding grantees that suit donors' interests. Tides does not provide administrative support.

The Philanthropic Collaborative is a public charity foundation, created and staffed by the Philanthropy Department of Rockefeller Financial Services to provide a flexible vehicle for grantmaking and other charitable activities. Under TPC, donors are able to establish donor-advised funds, funder collaborations, and special project funds. TPC will set up a donor-advised fund; advise donors on prospective grantees in their areas of interest; review and process grants; evaluate and monitor grantees; and prepare regular financial and program reports to donors on the status of funds.

Donor Collaboratives Are Appearing

Donor Collaboratives are also known as donor circles, donor clubs, or donor networks, and they operate in major cities and smaller communities around the country. In Chicago, middle-income people in their twenties and thirties meet periodically to decide on small grants, such as $6,000 for a Jazz in the Parks program. They chip in gifts to cover the $6,000. Young entrepreneurs, professionals, and office workers in Chicago have formed the Young Leaders Fund in conjunction with the Chicago Community Trust, the city's community foundation; each member contributes $500 a year and the group decides on grants. Similar Collaboratives exist from Seattle to Silicon Valley to Long Island.

Management Firms, Consultants, and Other Foundations

Donors can hire private firms to assist with the full spectrum of management and administration. At a minimum, these firms can provide accounting and clerical assistance, and they can also vet grantees by reviewing applications or conducting site visits. Another option is to hire a part- or full-time consultant to manage the enterprise, or parts of it. Also, a number of foundations share management staff or space. This sharing allows for economies-of-scale for managing day-to-day operations, can improve information about grantseekers and grantmaking opportunities in a particular funding community or field of interest, and can streamline administrative and reporting processes.

Some family philanthropies find for-profit management consulting firms attractive when:

- The donor is starting a foundation;
- The foundation is in transition (from smaller to larger asset base);
- The donor-founder dies;
- The trustees want to look at a new mission or program area;
- The trustees seek a new governance and management structure; or
- The trustees see a need for their own training and development.

One advantage of a consulting firm is that it can be available at all times, on an as-needed basis. A solo consultant may not be able to meet that criterion. A firm may offer all the standard management and administrative services, plus assistance in developing and managing a grantmaking program.

Consultants Are Useful for Some Boards

Consultants are particularly useful for a specific task or problem, such as planning a retreat or other event, diagnosing or assessing a situation, mediating or facilitating between family members, establishing a strategic planning process, conducting an executive search, training new board members, or focusing other long-term planning activities.

Judith Healey manages two family foundations from her offices in Minneapolis: the Weyerhaeuser Family Foundation (1998 assets: $16 million) and the Laura Jane Musser Fund (1998 assets: $15 million). She focuses on helping the boards keep their strategic plans up to date, develop detailed plans for new grantmaking areas, find appropriate grantees, and monitor progress of grantees.

"An individual consultant or small consulting firm can provide tailor-made services," Healey observes. "If a board works with the same consultant over the course of time, the consultant learns how to listen to the board, how to hear what they're really getting at. The consultant can help them find connections between what they want to do and ways to help them do it."

Conclusion: Linking Management to Values of the Family

Important themes emerge from the discussion of family philanthropy in this chapter. First, effective management is essential to help ensure that a family foundation is properly run and all operations meet legal requirements. Second, management is largely what the trustees make of it: the board can decide how centralized in one person or spread around among several they would like management to be, whether the foundation should be staffed by a family or nonfamily member, and how much power the board wishes to delegate to managers. Third, every family foundation has options it can choose from, and resources it can draw from in setting up or changing its management structure.

Finally, it is clear that management enables a family to express its values in its programs. The family and the board determine those values; the manager does not. But the manager carries out the program and delivers the goods for the board. The quality of management makes all the difference in how effective the grantmaking program is and in how the family is viewed in the community.