THE PRESIDENT'S ESSAY

TRUSTEES

Real estate investor Aaron Diamond knew how he wanted his fortune to be distributed after his death: The bulk of the estate—eventually $160 million—was to fund a foundation to benefit New York City, where Mr. Diamond had made his money. He intended the foundation to last only 10 years. To carry out his wishes, he appointed three trustees, including his wife.

When the Aaron Diamond Foundation closes its doors in 1996, it will leave behind a story of responsible trusteeship.

As the foundation was getting underway, serious management problems arose, eventually leading to the resignation of the two non-family trustees. At risk had been Mr. Diamond's stated intentions to limit the foundation's lifetime and to direct its substantive focus on New York City. Still later came evidence of malfeasance in the management of the estate's holdings in Mr. Diamond's company, which led to court action and a judgment against an administrator.

Throughout these troubles, an experienced foundation executive, Vincent McGee, helped Mrs. Diamond as she moved to correct the problems. By 1986, the foundation was put into high gear.

The result has been an impressive roster of grants that have produced tangible results. The foundation's support for research on AIDS, for example, has resulted in a crucial new finding that is expected to affect the design of research around the world. Its projects in the public schools have helped more children finish school sooner, and continue on for further education. And its work on human rights and civil liberties has yielded concrete evidence that has encouraged responsible public debate and protection for victims of injustice.

When the Aaron Diamond Foundation closes its doors in 1996, it will leave behind a story of responsible trusteeship overcoming betrayal by those who had first been entrusted with its care.

Standing beneath a portrait of The Commonwealth Fund's founder, Anna Harkness, are the Fund's current chairman, Charles A. Sanders, M.D., the outgoing president, Margaret E. Mahoney, and previous chairman, C. Sims Farr.

THE FOUNDER'S VISION

To fulfill a trust, the trustee must act for the benefit of another, not for personal gain. Trustees are in effect moral decision makers.

In law, a trust is a fiduciary relationship in which one person (the trustee) holds the title to property (the trust estate) for the benefit of another person (the beneficiary). Often a trustee is a member of a body of persons specifically appointed to administer the affairs of an individual or an institution. To fulfill a trust, the trustee must act for the benefit of another, not for personal gain. Trustees are in effect moral decision makers.

Less than 100 years ago, a new form of trust emerged in the United States—the private foundation. Inspired by American philanthropists, notably Andrew Carnegie and John D. Rockefeller, the foundation became a way to organize private giving over time. The invention was not intended as a public charity but as an entirely new kind of structure for entrepreneurial-like investment in the future—seeking out the neglected opportunities for filling in the bare spots in human knowledge.

Most of those who set up foundations are innovative builders who decide to assign their business gains to philanthropic purposes. This inspired human act is, like patriotism, an expression of concern about others. Honoring that benevolent intent is not just honoring a donor's name; it is honoring a donor's overarching original vision.

But merely honoring the past does not inspire; reflecting on roots and origins can. The Commonwealth Fund's emphasis on helping Americans lead healthy, productive lives reflects Anna Harkness's interest in advancing the general welfare. Even the Fund's home, Harkness House, is a daily reminder of the Fund's roots as well as the implicit trust placed by Mrs. Harkness and her son, Edward, in the trustees and staff to assure the Fund's integrity over time.

PRIVILEGE AND RESPONSIBILITY

"The world is entrusted to those who will take care of it," commented the 19th-century English economist Walter Bagehot. Most American institutions—including corporations, as well as universities, other nonprofits, and foundations—are entrusted to a board of directors or trustees. The titles may vary. The obligation to assure proper oversight does not.

A for-profit company has a standard against which to judge performance: Is the company making money? The nonprofit institution has no such measure. As economist William G. Bowen points out, nonprofits have no measure of success, or even progress, that equals the "bottom line" in business. But they should be held accountable for meeting acceptable standards in the management of finances and the quality of programs. For foundations, the ultimate bottom line is their success in showing how improvements can be made in society.

The business and nonprofit worlds share the obligation to protect the public interest. Such protection goes beyond the standard of making money. While for-profit businesses sometimes receive tax abatements for bringing jobs and other benefits to communities, nonprofit organizations routinely enjoy large tax advantages. The legal presumption that exempts nonprofit institutions from taxation is that those institutions are operating exclusively for the public good, that they are private institutions serving a public trust. Foundations take this presumption one step further by asserting their legal right to withhold, manage, and eventually distribute money for the public benefit, however they define it.

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THE CONSTITUENCY ISSUE

Corporate trustees or directors act for the benefit of the shareholders, who in turn watch over them. These shareholders are what social scientists call an "attentive constituency." Similarly, universities have built-in attentive constituencies—faculty, students, alumni—who are organized and vocal enough to protest to trustees when they perceive a misstep.

Foundations have no sharp-eyed shareholders, no watchful constituencies. Unlike corporations or universities, foundation trustees act for the benefit of the public at large—that ultimate but nebulous body of individuals who may or may not stand to benefit directly from the good work of foundations.

Some years ago Thornton F. Bradshaw, then chairman of the John D. and Catherine T. MacArthur Foundation, noted that not having to answer directly to any constituency increases the "extraordinary" power foundations hold. "It means," he said, "that organized philanthropy is restricted in its actions only by the intelligence and conscience of those who run foundations."

THE RESPONSIBLE BOARD

Responsible boards are not born. They are composed carefully.

Responsible boards are not born. They are composed carefully. A board must be large enough to be diverse, yet small enough to deliberate. Certain personal characteristics of board members are essential—competence, integrity, intelligence, judgment, and empathy. Board candidates should enjoy wide respect—as a measure of quality of mind and spirit, and of actual accomplishment. They should be active citizens and good listeners with a keen interest in the world of ideas—as a measure of breadth and depth. Paying attention to these factors, and not just to issues of age, geographic distribution, and gender, is the only assurance the public has that these self-perpetuating bodies acknowledge the importance of responsible succession.

A foundation needs trustees who can work together productively, but it does not require that they be unanimous in their opinions or uniform in their outlook.

The board is in fact only as effective as a chairman wants it to be. The board chairman's task is to guide the board, to help diverse personalities merge into an effective whole. A foundation's extraordinary potential for good springs from its board's ability to act as a collective, to be cohesive in fulfilling its public trust. As Alfred North Whitehead remarked, "No member of a crew is praised for the rugged individuality of his rowing."

Success in fulfilling their collective responsibility lies with trustees recognizing that the act of giving is secondary to the importance of the work supported. "Donors, trustees, staff must all be on their guard against illusions of omniscience, or of omnipotence, or both," wrote Frederick P. Keppel as president of the Carnegie Corporation more than 60 years ago.

SETTING THE COURSE

Trustees must be careful not to permit self-interest to clash with duty. To adhere to this principle, which is rooted in common law, board members need to forego advocacy of their own institutions or the pursuit of deep personal interests beyond sharing knowledge.

The role of the trustees, individually and collectively, is to set direction. Trustees are accountable for results, for the successes and failures of the organization. To be properly accountable, they should delegate managerial responsibility to a well-chosen chief executive officer or executive director—whatever the term.

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Foundation trustees committed to philanthropy's primary purpose of benefiting the public confront a task as difficult as any in the world of business. But their task can be eased by good business practices. For example, trustees should approve a written mission statement that acknowledges the donor's broad intent and defines the basic program objectives. This is not an idle exercise or a one-time event, but an essential step in exercising the board's policy role on finances and program, and a main guidepost in exercising oversight.

To make the reasoned, independent judgments that guide the staff in shaping plans, trustees need information, and more information. They need qualitative, objective information for in-depth discussions about strategic planning and program design—and they should require that staff and consultants provide it. They need quantitative data on finances, operations, performance and management, and organizational changes. They need criteria to measure results, which means, in turn, that they should demand that those who help them be results oriented.

ACCOUNTABILITY AND THE FUTURE

That foundations are essential to society may not be a widely held view. Although their ultimate constituency is the public, it is not at all clear that the public understands or values their role. Unlike hospitals, whose constituencies aggressively oppose efforts to close their doors, foundations cannot expect the same public pressure to keep them alive, in part because it is so difficult to measure the public benefit. Accountability is the password to credibility.

Plenty of evidence can be provided from the past to show that private foundations are an effective vehicle for making measurable gains. Yet even that evidence has not been made easily accessible. Records of significant accomplishments over the last few decades remain largely tucked away in professional journals, books, and foundation files. Distilling it would help the public better understand a range of issues and fuel public confidence that constructive change is possible. Most important, it is a matter of public duty to make facts available about the foundations' work, and worth.

Responsibility for assuring that foundations adhere to the law now falls to state attorneys general, the Internal Revenue Service and Congress. But their oversight is limited by other demands. In any case the real issue for foundations is public accountability. Foundations should be doing some plain speaking about their work, telling the public how they do things, how they determine what seems to work, and how much it will cost society to make the world better.

The lack of broad-based appreciation of what foundation money can accomplish can lead to a gradual erosion of confidence that foundations are worthy of the freedom they now have.

Making known the concrete contributions of foundations is the most direct way to demonstrate that foundations are helpful to a democratic society. A trustee imperative is to see that this step is taken, for failure to get on with this task threatens the future of these tax-exempt institutions. The lack of broad-based appreciation of what foundation money can accomplish can lead to a gradual erosion of confidence that foundations are worthy of the freedom they now have. The result can be more stringent governmental oversight and less chance to build public enthusiasm for such instruments of private giving.

BEHOLDEN TO WHOM?

Beholden to the public at large, foundation trustees must be active agents for the broader good. In the early 1980s the board of The Commonwealth Fund dramatically repositioned the foundation. Through the skill and enthusiasm of finance committee chairman, R. L. Ireland III, an eroded endowment would double in value. A mission statement would be hammered out, setting program directions for the next decade. The trustees would become a collective whole, maintaining their individual perspectives while the staff provided the information they needed for thoughtful, reasoned decision making. C. Sims Farr, newly installed as chairman after 13 years on the board, would help conserve and preserve the best aspects of the foundation while championing the charge to put the foundation on the path to a firmer future. His accessibility and line of questioning would be an enabling influence on staff.

In the following years, with term and age limits set, the composition of the Fund's board would change, but what had been put in place would not. There was now a structure for doing business in an orderly fashion and an environment for open, forthright discussion—a healthy tension—with staff. New programs would aim at reflecting the founder's dream of helping to advance the general welfare, with the focus on growing up and growing old in America, and staying healthy and productive in the process. A revised Harkness Fellowships would acknowledge Edward Harkness's foresight over 70 years ago that such an investment in human capital would have high returns in new knowledge and leadership.

The justification for foundations existing at all is that private wealth can risk the search for ways to enhance the broader good.

The Commonwealth Fund story is about caring trustees. As Erik Erikson believed, "Caring is the virtue that is born from the struggle to take responsibility."

A glorious past may turn into a bleak present in the absence of a caring board and its chairman. Sobering examples in the private sector—both in the corporate and non-profit worlds—are reminders that inattention or failure to act violate the public trust.

Demonstrating that a foundation deserves trust begins with its board of directors consciously taking on the job of trusteeship, refining the habit of reasoned reflection, and keeping the institution faithful to the basic vision, while responding to the times. "None of us knows the single way to the greatest good," social scientist Gilbert Brim reminds us. But the justification for foundations existing at all is that private wealth can risk the search for ways to enhance the broader good.

Margaret E. Mahoney
President