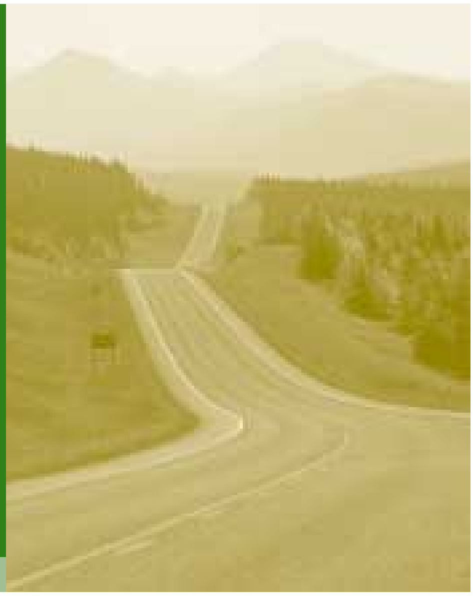
Generations of Giving: Leadership and Continuity in Family Philanthropy

An Initial Report On Findings

PASSAGES
EXPLORING KEY ISSUES IN FAMILY GIVING
VOL 5.2



Philanthropy is sailing into a new, uncharted era in North America, and family philanthropy is at the prow. Private charitable giving in 2000 topped $212 billion in the United States, an all-time record. At the same time, the number of new private foundations more than doubled from 1987 to 2001, with more than 6,000 new foundations created in 2000 alone. A new generation of sophisticated, financially skilled, and fortunate wealth-generators have created a tidal wave of new opportunities for philanthropy.

But for many of them the best course ahead is unclear. They are motivated by values of citizenship and social impact, but inexperienced in translating their personal agendas into philanthropic action. Their advisors can offer excellent counsel on tax, legal, and procedural matters, but are not as helpful with a deep understanding of the meaning of philanthropy, the public consequences of such private behavior, and the complex dynamics of families. One of the resources that must be tapped to guide today's philanthropists is the century of experience of their predecessors. We need to find ways to gather, interpret, and disseminate the critical lessons from the generations of family philanthropy that have led us to this moment, in order to move most confidently into the decades that lie ahead.

This special edition of *Passages* summarizes initial findings from a study of 30 multi-generational family foundations from across the United States and Canada. The National Center estimates that there are approximately 40,000 family foundations in North America today, more than half of which have been formed over the past 10 years. These institutions collectively oversee more than $175 billion in assets, and they disburse more than $8 billion per year in grants. The vast majority of new foundations are family-governed, and family foundations make up the largest proportion of foundations. They have grown from less than 25% of the membership of

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the Council on Foundations in 1992 to nearly 40% today; family foundations represent nearly 70% of the Association of Small Foundations' 2,600 members.

Some of these foundations are famous and household words: Ford, Rockefeller, Mellon, Pew, and lately Gates and Turner, Hewlett and Packard. But these mega-foundations are only the tip of the iceberg. Ninety-nine percent of all family foundations have less than $100 million in assets; 60% have assets under $1 million dollars. But many of these mid-sized and smaller foundations will grow significantly in the coming years via future gifts, bequests, and investments.

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We have heard many of their stories. And yet we know very little about them *as organizations.*

BACKGROUND AND DESCRIPTION FOR PROJECT

When the National Center initiated the "Leadership and Continuity Research Project" in 1998, its basic purpose was to enhance the core understanding of multi-generational family foundations. At that time, everyone acknowledged that there was a good body of stories, opinions, and anecdotal learning about family foundations, but almost no well-documented social science research on these organizations. The project was designed to fill that gap.

THANKS TO OUR SUPPORTERS AND FAMILIES

The National Center for Family Philanthropy gratefully acknowledges the ongoing contributions of the *Generations of Giving* Advisory Committee, which is chaired by Alice Buhl, and includes nationally-recognized experts Curtis Meadows, Judith Healey, and Cole Wilbur. We also acknowledge the generous leadership contributions made to date for this study by The Surdna Foundation in New York and The Frey Foundation in Michigan, and the ongoing contributions of members of our *Friends of the Family* partners program. Our development of new information and resources for donors, families, and advisors depends on both the general and project support of funders who share our interests in encouraging and advancing family giving, and without their support this project would not have been possible.

Finally and most importantly, we thank the 30 families who shared their histories, accomplishments, challenges, and dreams. Without them this project would never have succeeded. We are proud that these families have agreed to participate in this project, and we know that many of them consider this participation as an important aspect of their legacy for this field.

For more information about supporting the* Generations of Giving *or* Friends of the Family *programs, please contact the National Center at 202.293.3424.

"The focus of this study is governance and continuity—the ways that families organize themselves to accomplish their philanthropic goals."

The initial findings have reconfirmed that agenda, but also moved us to another more urgent one. The analysis of data thus far has not led us to a guidebook of "best practices" for thriving family foundations. Instead, it portrays an industry at a crossroads. Driven partly by economic factors, partly by the natural evolution and maturation of these philanthropic families over the past several decades, and partly by current events, even the most successful family foundations are feeling challenged—and sometimes threatened—as never before in their histories. As a result we have extended and deepened our analysis of this rich data to increase our understanding of these challenges, and to find new ways to guide foundations for the future.

It is important to understand that this study and this report are not primarily about the act of grantmaking. Many professionals, practitioners, and academics have done wonderful work over the past several decades on program development, monitoring and evaluation, relationships with grantees, venture philanthropy, ethical and legal requirements, and all of the skills that are essential in doing philanthropy well. The focus of this study is governance and continuity—the ways that families organize themselves to accomplish their philanthropic goals. Why are these families engaged in philanthropy? What does it mean for them? What are the relationships between the family and its philanthropic organizations? How do families think about their collaborative future, and what steps are they taking to achieve it?

This study provides answers to and perspectives on these and related questions. These answers will help family foundations to increase the quality of their governance and family participation, which in turn will enhance the overall quality and potential of their grantmaking.

Project Description

This project used interviews and site visits to create comprehensive case histories of multi-generational family foundations in North America. The study was conducted by a team assembled by Lansberg, Gersick & Associates, a research and consulting organization which focuses on all forms of family enterprise world-wide. The team included psychologists, organizational specialists, and interviewers and writers with extensive experience in the field of philanthropy. The study was designed to address two core questions: *How do families effectively structure their philanthropic organiza-*

RESEARCH AND INFORMATION GATHERING PROJECTS OF THE NATIONAL CENTER FOR FAMILY PHILANTHROPY

A primary goal of the National Center for Family Philanthropy is increasing the understanding of the field of family philanthropy. By offering families significant research, well supported by the experiences of family donors, the National Center is providing a framework for helping those involved in private giving and those who may be inspired to be involved. We accomplish this through independent research and partnerships with other leading institutions, including the Urban Institute's Center for Nonprofits; The Foundation Center; and others.

The National Center has developed or initiated a range of projects that examine the dynamics and overall understanding of family philanthropy, including:

- *Family Foundations: A Profile of Funders and Trends (2000)*
- *The Practice of Family Philanthropy in Community Foundations (2002)*
- *The Portrait of Family Philanthropy in America*
- *The California Initiative: Donor Motivation Interview Project (2003, forthcoming)*
- *Leadership for a New Generation*

The tools, data, and suggestions that have emerged from these projects have already assisted a wide range of practitioners. Perhaps more importantly, they have influenced the creation of new and more informed family giving programs.

For more information about these and other projects and services for donors, families, and advisors, please visit the National Center's website at **www.ncfp.org**.

tions? How do families plan for and accomplish continuity of involvement in these foundations over time and across generations?

The primary data are case analyses of 30 Foundations in North America. (The identity and specific data from each foundation was provided with a promise of anonymity—the only possible way to get this kind of access to these families and organizations.) The foundations were founded between 1920 and 1990. They all currently involve at least two generations; many involve three. Their current endowments range from under $10 million to well over $1 billion. In all the research team talked with almost 300 individuals in 35 states and three Canadian provinces. We met with individuals, couples, and family groups, attended meetings, interviewed professional advisors, and reviewed by-laws, articles of incorporation and trust agreements, grantmaking guidelines, and trustee handbooks.

The cooperation and interest of the participants was universally excellent. Members of the research team were invited into trustees' offices, homes, and, most importantly, their memories. As a result, we have detailed case notes, foundation histories, family histories, and financial records. We also are beginning to integrate material from prior research and the foundation literature in general.

The data are very rich and somewhat formidable. The analysis continues and will for some time, even as we begin to disseminate findings through this interim report and other formats.

Sample selection

Lists of appropriate foundations were generated from the National Center for Family Philanthropy, the literature on family foundations, and colleagues in the field of philanthropy. The data gathering was accomplished in two phases. In 1999, an initial sample of four foundations was drawn to test the interview protocol and the research procedures. Since no modifications were made, recruitment was resumed in 2000 and the samples combined. A snowball process was used to create the pool, and there was no attempt to randomize on any dimensions. The baseline criteria required for inclusion in the pool were:

1. A formal foundation.
2. Having completed at least one generational transition of participation and leadership.
3. Governance control in the hands of one extended family, and at least 4–5 family members currently involved.
4. A willingness to participate and to talk about the family's philanthropy
5. Geographic dispersal across North America.

In addition, we determined a target distribution on two criteria: generation of family participants, and current size of the endowment.

Foundations were contacted by letter and phone in waves of approximately 20 to invite their participation. The process of discussion was often prolonged. While a few foundation leaders accepted the invitation very quickly, others brought it to their boards for lengthy discussion which took weeks, months, and in a few cases almost a full year. As the sample was filled in, we adjusted our second and third wave of invitation letters to focus on the underrepresented cells. In all we made initial contact with about 75 foundations, and had at least one conversation with 50, to reach the sample of 30 participants. Only one foundation began the project and then withdrew, requiring a replacement.

TABLE 1: TARGET DISTRIBUTION

	Founder to 2nd generation	2nd to 3rd generation	3rd generation and beyond	Total
< $ 30 million	3	3	2	8
$ 30–100 million	2	6	7	15
>$ 100 million		3	4	7
Total	**5**	**12**	**13**	**30**

TABLE 2: ACTUAL SAMPLE DISTRIBUTION

	Founder to 2nd generation	2nd to 3rd generation	3rd generation and beyond	Total
< $ 30 million	3	1	1	5
$ 30–100 million	2	8	6	16
>$ 100 million		3	6	9
Total	5	12	13	30

As Table 2 shows, the final sample was a very close approximation to the target.

Data gathering and analysis

The data gathering continued throughout 2000 and 2001. Interviews were scheduled at the convenience of the participants, and took from one to four hours. The interview protocol included sections on demographics, organizational characteristics, history, mission, continuity planning, asset management, staffing, governance and leadership, grantmaking procedures, family dynamics, and issues of special concern. (A copy of the complete protocol will be included with the final report.) At the conclusion of the set of interviews, a team member summarized each case, and the team met several times to refine and aggregate the case material.

Several policy decisions were made during the data gathering that in some ways shape the final results.

The size of the sample foundations is skewed to the larger foundations in the overall population. Overall less than 10% of family foundations have endowments greater than $30 million, but they represent more than 80% of our sample. This sample is not intended to be proportionally representative of the population of family foundations, but rather to provide an opportunity to learn from the experience over time of foundations that have grown through many developmental stages. Larger foundations are often in a better position to remember and report on their experiences as start-ups. On the other side of the coin, smaller foundations cannot report data about the futures they have not yet experienced.

Nevertheless, most of the foundations in this study were started with no endowment or a very small one. Their present asset levels are due in small part to additional contributions, and much more significantly to increases in the values of their holdings or liquidation of shares, particularly their shares of family companies. We can reasonably assume that many foundations that are "small" today will grow substantially in the future through the same pattern of bequests, future gifts, and investment returns over time. Despite our focus on using larger foundations as data sources, we fully expect that the lessons from this study will serve as a guide to the path ahead for those foundations with more modest asset levels.

After much debate, the study was restricted to formal family foundations. We talked with these families at some length about other philanthropic vehicles. In fact, most of them were charitable in many ways—individual, corporate, and in some cases, through a network of foundations and advised funds. However, without the central axis of a single foundation, it would have been nearly impossible to make sense or aggregate our learning across cases. The foundation structure provides a nucleus of governance and history that is crucial to our understanding issues of succession and continuity within the family philanthropy.

Within each case, the research team made every attempt to interview every family trustee who was willing. This led to 5–15 interviews per case. Team members were careful to talk to at least one person in each family branch, and to over sample the senior generation—two preferences that all the families strongly supported. It also proved important to try to reach at least one "outlier" in each family. We knew from past studies with family companies that you always learn new things from people on the margin, although they are sometimes the very relatives that the high-status family members argue will have nothing valuable to add.

This study confirmed our general analytical approach to research on families, which emphasizes how important it is not to accept the perspective of any individual or branch as the "real truth" about the family or the foundation. For example, one important lesson we learned in the first pilot cases was how essential the professional staff were as information sources. In fact, we found that it worked best to talk to the executive director or head staff person first, whether that role was filled by a relative or non-family member. They were extremely helpful in all cases. They provided a broad overview of the foundation and the family, and they were (with one possible exception) extremely committed to the goals of the research. In some cases they had taken some risk to encourage the family to join the study, so they were very motivated to help us make it work well. But they have a particular point of view, and it needed to be considered in the context of their non-family status.

Overall, these families were amazingly open and eager to tell their stories. Half the families were enthusiastic about participating from the beginning; in the other half, one or more family members expressed some ambivalence even as they agreed. The initial hesitation seemed to be largely due to a concern about illuminating two areas: old family rifts, or embarrassing grantmaking inadequacies. Once the interviews began, the interview team had no trouble getting respondents to answer questions. In fact, many of them were thrilled to be asked and were very interested in having conversations about philanthropy and their foundation in particular. They often asked for feedback and advice, which the research staff deferred until the study could be completed and the data reported. The dilemma for the interviewers was how to protect the neutrality and objectivity of the research without being unnecessarily withholding. The decision was made to follow a firm policy of non-intervention.

Once a family agreed to participate, we were generally welcomed into all parts of the family and the foundation. Nevertheless, about 10% of our requests for an individual interview were denied. Most of the reasons given were logistical; people told us they were too busy, or unavailable for other reasons. Only five individuals out of several hundred said they did not like the idea and refused on principle.

As the interviews were completed, the data was compiled into 30 case reports. Each report included:

- Demographic data on the family, the foundation, and the business or other parts of the family enterprise
- A narrative summary of the interviews, aggregated according to the protocol
- A timeline of key events from the founding of the family enterprise to the present
- A genogram of the extended family
- An interpretive summary of the key themes
- Additional questions and themes raised but not answered in the case.

This qualitative material was compiled, aggregated, discussed, and re-analyzed by the research team. Ultimately, the qualitative analysis forms the heart of the manuscript being prepared and summarized in this report.

Anonymity and case examples

All of the participating foundations were promised anonymity. The identity of the foundations who participated will not be released. Our commitment to the participants is to remove identifying information from the stories that are reported, and to disguise unique situations or characteristics.

At the same time, it is important that the case examples are true, and not made up to fit a pre-determined conclusion or theory. Therefore in all of our case examples we have remained as close to the actual situation as possible, with some fictionalization of non-essential facts. The members of particular families may recognize themselves, or think they do (although our experience has shown us over and over that respondents most often mis-identify their own stories), but others could only guess at the source of examples based on information not drawn from our report.

Sample demographics and summary facts

Only 13 of the foundations began with an original endowment, and only six of those had endowments over $1 million. The range was from $8000 to $60 million. Seventeen of the foundations (60%) began without any endowment, but were funded annually out of operating revenues of a company or personal contributions. Today all of the foundations have their own assets, and the endowments of the foundations in the sample range from $9 million to over $1 billion (see Table 2 above).

The first generation is still involved in six of the foundations (20%); the second generation in 25 (83%); the third in 22 (73%); and the fourth in 13 (43%). Three of the foundations currently have only 2nd generation members as trustees. The rest have at least two generations currently working together; 10 of the foundations (33%) have three generations currently involved (see Figures 1 and 2).

Figure 1: Generations Currently Involved

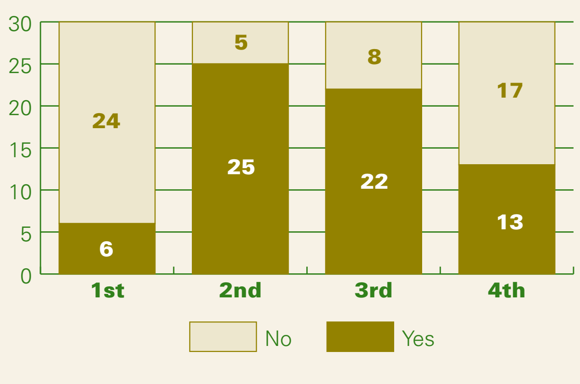
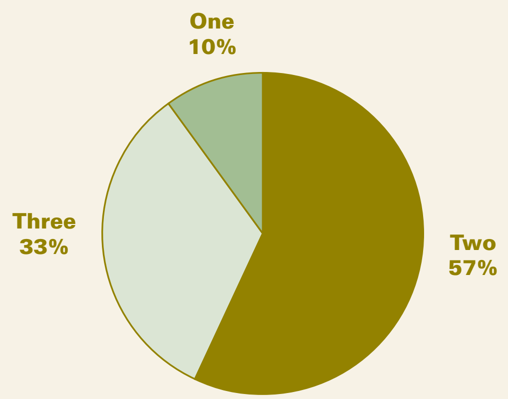


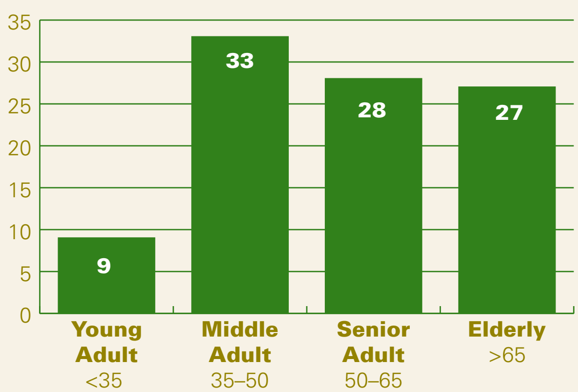
Figure 2: Number of Generations Participating



The ages of the trustees vary widely, but overall the trustees and directors are a very mature group (see Figure 3).

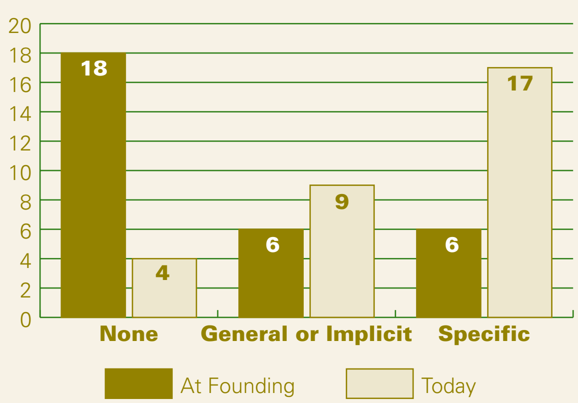
Only 12 of the foundations have any trustees under 35 years old, and for the sample as a whole about 10% of the trustees are younger than 35. One-third of the trustees are between 35 and 50, and all but four foundations have at least some trustees in this age group. Another third are between 50 and 65, with all but six foundations having at least one trustee in this age group. Finally, 27% of the trustees are over 65 years old. Twenty-seven of the 30 foundations have at least one trustee in this age group, and in five foundations the majority of trustees are over 65.

Figure 3: Current Age of Trustees



At founding, only six of the foundations began with a clear and specific mission statement or programmatic focus. Six more had a general statement of purpose that provided some guidance or priorities; 18 had no mission statement at all. As a whole, the clarity of the foundation's mission seems to increase dramatically with age; currently 17 of the foundations have a specific mission; 9 have a general statement, and only four have no stated programmatic focus (see Figure 4).

Figure 4: Mission Statement



Currently only two of the foundations operate without any paid staff, relying on family volunteers exclusively. The average staffing level is about 3.5 FTE (full time equivalents) per foundation, and 7 of the foundations (23%) have 4 or more FTE staff. The range here is truly remarkable, from 0 to 23 FTE. While size makes a difference (the correlation between asset size and staff size is .9), it does not tell the whole story. Foundations of comparable size may vary from 1 to 11 FTE of paid professional staff. On the other hand, it is also important to point out that only two of the foundations in this study had dedicated staff from the beginning, and only seven had staff within the first 20 years of founding.

About half of the families are still involved in an operating business, and one-third (10) have at least one other foundation. We will discuss this phenomenon later concerning governance of the complex family enterprise, but it is clear that the foundation is not an isolated activity for most of these families. Instead it operates in a network of family structures concerning the continued generation, management, and dispersal family wealth.

So what is a picture of the typical foundation in our study? It is 50 years old, begun with less than $1 million and now managing an endowment of about $75 million. There may be one or more members of the founders' generation still alive, but the control of the grantmaking rests with the second generation and the older members of the third. The trustee group, numbering about nine, meets three times per year, considers several hundred proposals, and disperses around 100 grants totaling about $4 million. There is a professional executive director (most often not a family member), a program officer, and a clerical person.

Some of our foundations are older, some younger, some smaller, some much larger—but if you imagine this group as you read the stories in this book, you will not be far off.

THEMES RAISED IN THE DATA

This summary report outlines only the most important categories of findings from the study as a whole. The data from these 30 cases was incredibly rich and complex. Each story is unique, but there also are common themes that cut across foundations of widely varying size, age, location, and structure.

At one level, the accomplishments of the 30 foundations in our research sample are remarkable. Their aggregate annual giving exceeded $150 million in 2000, and they are significant shapers of the quality of life in their varied communities. The research team was impressed by the uniformity of compliance with not only the letter but also the spirit of legislation and ethical guidelines. The level of voluntary effort in most of these organizations is very high. They have survived for good reason.

But the current challenges are glaring. In our work over the past decade we have found it useful to focus on four critical areas that affect continuity: mission and dream, organizational structure, succession planning, and family dynamics. While there is great variation across foundations, in each area we are finding significant uncertainty in the majority of the research sample. The core themes, each to be covered in a separate chapter of the full volume, include:

- ***Mission and Dream.*** A high percentage of these foundations are feeling strong pressure to revisit their mission, particularly in anticipation or response to generational transitions in leadership. They are caught between honoring their legacy and maintaining commitment from younger generations in the future, and most do not see a clear pathway to a resolution.

> "If siblings can avoid making it a matter of loyalty to perpetuate old grudges, their offspring are often motivated to bury bad feelings and seek collaboration across the entire generation."

- ***Organizational Structure.*** The organizational structures of these foundations have characteristically not kept pace with their growing endowments and families. Most have gone through a first round of formalization following the death or withdrawal of the founder. However, they have not completed the restructuring tasks that are needed to facilitate more complex grantmaking, make best use of professional staff and advisors where they exist, and deal with larger pools of potential trustees. Their grantmaking skills far exceed their governance abilities. There is also great reluctance (or at least ambivalence) about spending the funds necessary to modernize and upgrade the organizational infrastructure.

- ***Succession Planning.*** Some of these foundations take the preparation of their next generation very seriously, but more typically they avoid or delay serious conversations about successor development. Even those that have good discussions about the selection of future trustees often procrastinate on implementing a succession process. It is surprising that despite the success that some exemplary foundations across the country have had recruiting, training, and selecting successor trustees, the dissemination of their experiences has been poor. As a result most of these foundations go about reinventing the wheel of succession planning.

- ***Family Dynamics.*** Open conflict, destructive rivalry, absence of communication, and other acute dysfunction in family dynamics *per se* are not major problems in most of this sample. On the other hand, *avoidance* is a widespread danger, particularly as it interferes with a straightforward attack on the problems in mission, structure, and succession planning. The culture of politeness and a fear about rocking the boat has kept some of these foundations from debating the fundamental changes that are needed in the other three areas. That is how challenges become crises.

In general, our findings suggest that these foundations are doing good work, operating honorably and conscientiously, and giving voice to the philanthropic dreams of a large number of family members. However, they need considerable attention to their governance structures and processes.

In addition, we have come to some initial conclusions and observations, outlined below.

History matters. We found that the origins of the foundations; the personalities and characters of the key individuals; the evolution of the family culture and the economic status of the family over time; and the critical turning points from the past had a great impact on governance and continuity in the present.

We confirmed that, as in the business families we work with, there are many different histories in each case, depending on the source. One cousin is unclear about why some uncles were chosen as trustees while others were bypassed. Then another cousin recites the explanation with so much emotion that it is clearly a central memory for her—and a strong factor in her continuing relationship with the entire family. We also learned that, perhaps even more than in business families, actions in these foundations have very long "half-lives." That is, without the ups and downs of business cycles to capture everyone's attention, the foundations tend to perpetuate core unresolved historical issues for a longer time, continually reworking and returning to the same dilemmas over and over, even as individuals change.

However, we were encouraged to find confirmation in this sample of another axiom of family enterprise: second generations are the prime holders of grievances, and third-generation cousins are more inclined to forget them. If siblings can avoid making it a matter of loyalty to perpetuate old grudges, their offspring are often motivated to bury bad feelings and seek collaboration across the entire generation.

The concept of donor intent is more complicated than some assume. Founders launch all family enterprises. However, in a business the founder usually begins with a small equity stake that grows over the years. It is understood that the contributions of many are essential to build the asset base of the growing family firm, and later generations may in fact be responsible for the bulk of the value. In a foundation, the founder typically provides not only the inspiration but also the endowment. There will be appreciation and may even be additional contributions by others, but the core asset is usually created during the donor's lifetime or upon his/her death. This gives founders enormous leverage in determining the purpose for a foundation from the very start.

We heard a wide range of inferences, instructions, assumptions, and guesses from our interviewees about "donor intent." It was rare for a donor to clearly state: "The foundation funds will be used to do x, y, and z." In some cases, donors knew what they wanted their wealth to be used for, but were vague as to how much they expected their personal preferences to guide later grantmaking decisions. In other cases, their "intent" seems to be about the process of family collaboration, rather than about any restrictions on programs or grantees. We found that the donor intent was at least as likely to have been created by the descendants as by the ancestors—that is, a post hoc construction of what the donor would probably have done with the funds if he or she were still around. These conclusions are a stew of memories of the donors' actual actions, fantasies and myths about their inclinations, and projections of the passions of current family members onto the deceased ancestors. However, once agreed upon, this derived "donor intent" is a powerful force, used alternately by one or another subgroup as justification for an amazing range of proposals.

"As the foundation became an organization, a whole set of tasks, demands, and group processes were set in motion."

Much depends on the family's collective dream. We were primed to find that having a collective dream is important in family foundations, because these dreams are so central to our work with business families. Nevertheless, it is pretty hard to ignore how few of the families were comfortably secure about having a well-articulated sense of purpose and meaning, and how valuable it was to those who did.

Once again, we found that history was important here. Most of these foundations did not start out to accomplish collaborative family philanthropy. That came later. In fact, in most of these cases, the foundation was formed primarily for tax-minimization and to facilitate the personal charitable work of the founder or founder and spouse. But once in existence, the foundation took on a whole range of family agendas. The life histories of these foundations suggest that there is a critical moment in the foundation's history (sometimes at the founder's death, sometimes before or much later, but typically *not* at the very beginning), when the organization *became* a family foundation. That is, when a decision was made by some critical mass of relatives to make this charitable entity a *family* effort.

This transition includes a number of parts. One is decentralization, or at least de-personalization, of the grantmaking process. Other people beyond the individual founder got involved. All of a sudden the foundation changed from an implementation arm of one person's preferences to a system for integrating multiple points of view. Secondly, political considerations were introduced: fairness, authority, roles and responsibilities, entry criteria, etc. As the foundation became an organization, a whole set of tasks, demands, and group processes were set in motion.

The thing that holds all this together for the most successful families is their collective dream. This is not the same as the foundation's mission, although it includes mission. It is the overlapping "imagined possibility" that each family member has for the family in the foundation.

Another way to put it is that, for every family member, there are two fundamental questions: "Why are we doing this?" and "Why am I participating?"

The answer to the first question is related to the foundation's mission. The answer to the second one is the prime determinant of individual commitment. Each answer has a profound impact on the other. When a viable collective Family Dream exists, it is woven from the answers of all the family members to both questions. Some families routinely ask these questions of themselves, individually and as a group, and others never do. These cases convinced us that foundations that have not adequately addressed this issue, even if they are competent grantmakers, are at some risk for continuity and vitality in the generations to come.

Continuity and governance have a lot to do with professional staff. As the project began, we were almost exclusively focused on family members. However, as each case progressed, the interviews with executive directors and project officers were very valuable. In short, we learned a lot about the families from these highly invested but non-family sources. The most important lesson from these cases, especially for foundations that do not have non-family staff but may in the future, is that hiring staff not only increased the capacity of the foundation to do work, it fundamentally changed the way the work was done by everyone, including family.

Adding professional, non-family staff to a foundation usually marked a critical transition from personal giving to a philanthropic organization. The kind of staff that a family sought out—their backgrounds, credentials, styles, and career aspirations—told us a lot about the family's sense of itself as philanthropists and as "owners." Some families wanted leadership from the staff; some wanted support. It is not a big surprise to find variety. What we hadn't considered was how broad-reaching the impact of staff proved to be, far beyond grantmaking. For example, staff were often very important in subtle ways in shaping and managing family dynamics. They worry about process, although most of them feel very cautious about going beyond their role.

There is an important lack of attention and resources devoted to governance in family foundations. Since most of these foundations began as a vehicle for personal giving, the initial focus was on distributing funds, not on organizational structure. As the foundations have grown and matured, the emphasis has remained on program. Discussions of trustee structure, procedures, by-laws, and policies are perfunctory, if they happen at all. When written by-laws and policies do exist, they are often ignored. In addition, there is an extreme reluctance to invest resources in sustaining and developing the organizational systems. Technology, training and development, and staff support are typically under-resourced. As a result, the organizational needs of the foundation are not met, and further, the grantmaking is hampered, often in subtle ways.

There are not enough resources for site visits or follow-up evaluations. Review dockets are over-full. Conferences are labeled as too expensive. Governance policies are continually "tabled" and never resolved. There was an enormous range in this sample from below-bare-bones to nearly-luxurious, but the average investment of both funds and attention was significantly below the standard of infrastructure that you would expect for organizations of this complexity and size. In the full report we will explore the issue of organizational resources extensively, leading to the conclusion that attending too little to organizational structure and support—even with the intent of concentrating all the dollars and efforts on grantees—actually reduces the overall impact of a foundation's grantmaking.

Survival is not the same thing as success. All of the foundations in this research sample are survivors, but only some of them define themselves as successes. The key distinction between those foundations that are thriving and those that are merely enduring is the sense of passion, commitment, and joy that the participants feel about their efforts. Most of the trustees, directors, and staff feel like they are doing "good work;" but only a minority feel that they are doing their work well, that the foundation captures their best ideas and efforts as individuals and weaves them into an exceptional collaborative enterprise. The most important lessons from this research are about the choices that those thriving foundations made to reach this condition, and the opportunities that other foundations have at different points in their development to emulate them.

DEVELOPMENTAL ANALYSIS

The data from this project fit clearly into a pattern of development over time and across generations. Many of the foundations in this study are at a historical turning point. Most of them have evolved from a first-generation system that focused on implementing the personal philanthropic values of their founders, through second generations of formalization, professionalization, and dramatic expansion. Now they are struggling with the challenges of creating permanent collaborative family institutions. At critical points in their evolution they faced important dilemmas. How well they resolved these dilemmas will determine how vital they remain during the next stages of their development.

The final report will deal with a number of these dilemmas, presenting conceptual conclusions illustrated with examples from the actual cases. As an example of this kind of conclusion, one of the key dilemmas that was apparent in nearly every one of the cases is presented here.

The dilemma of inclusion vs. selection

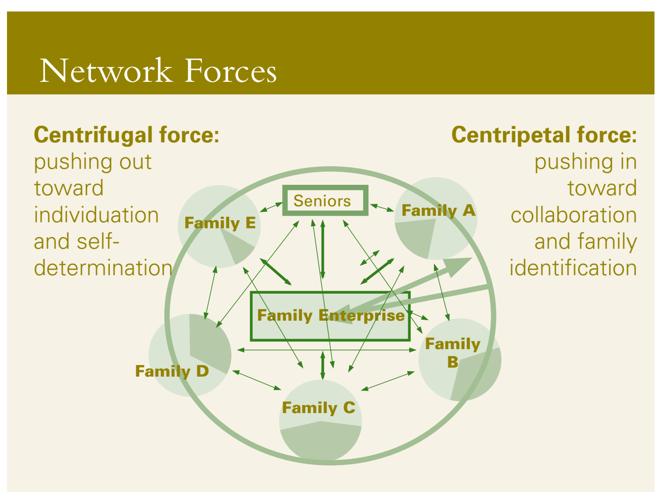
The most common dilemma in the transition to a collaborative family foundation is the tension between ***maximum inclusion*** and ***criterion-based selection***. Should the foundation be seen as an opportunity for collective family action, inviting the participation of everyone, or is it a demanding task-based organization that requires participation only by the most skilled and appropriate family members?

"The key distinction between those foundations that are thriving and those that are merely enduring is the sense of passion, commitment, and joy that the participants feel about their efforts."

This is in part a dilemma of ability, and in part a natural result of the inevitable increase in diversity as a family grows across generations. Families rarely talk about this choice explicitly. Instead it emerges in conversations about the size of the board, the rules for service, the geographic dispersal of cousins, the creation of junior boards or matching funds, and the opportunity for learning skills. But the underlying question is the one that must be resolved: whom do we involve and what makes them qualified for participation?

Models that have been developed for family businesses are applicable, but only to a point. Every group of any kind of membership must solve the dilemma of inclusion and diversity. It is useful to recognize that there are two opposing forces at work as each generation rises to adulthood and independence.

FIGURE 5 : NETWORK FORCES



On one hand is the centrifugal force of individuation (the arrow pointing from the center outward to the edge on Figure 5). As offspring move through adolescence and into adulthood, they begin to find their individual identity.

Strong or weak, smooth or lurching, each young adult must move at least somewhat away from the center of the family, represented by the parent(s). Entire theories of psychology and family dynamics are based on this concept of individuation. It is everyone's lifetime task to discover what is unique and different about oneself, and then to find a place in the world to be that person as authentically as possible. Young adults express this force by voicing their firmly held beliefs and values, by making it clear what parts of their family's style and history they disagree with or intend to reject, and by exploring new arenas that are not interesting (or, even better, challenging) to the rest of the family, especially its older members.

At the same time, there is an opposing, centripetal force, which is the tether that binds the individual to the family (the arrow that points back toward the center). It is made up of the strands of affection, obligation, history, authority, and identification that are woven into the ropes that hold a family together. This is the force that makes possible collective action as a family in the foundation. It is expressed by the young adult in the desire to be invited, to belong, to learn about the history and points of view of others, and to support traditions.

The balance between these two forces is affected in family foundations by the openness of their choices as organizations, and is a general theme in all generations. A family company is performance driven. Success is determined in part by outside forces (the market, manufacturing systems, the overall economy) and is measurable by performance metrics (sales, profit, market share, stock price, equity growth). In contrast, a family foundation is value driven. It sets its own purpose and is, within limits, the creator of its own criteria of success. There are willing potential grantees for almost any program area. The legal requirements are minimal. It is, in short, hard to "fail" if failure is defined as the involuntary death of the organization.

> "The underlying question is the one that must be resolved: whom do we involve and what makes them qualified for participation?"

This means that the foundation is much more open to an extremely wide range of objectives and personal agendas. "What I want to do" and "What we can do" are the same. This provides enormous encouragement for the "centrifugal," outward force in the foundation. Each individual can see the foundation as potentially the enabler of her or his self-image and social agenda—a chance to use large resources to demonstrate "who I am." At the extreme, this force leads each individual to try to get the foundation to reflect his or her definition only (or primarily), increasing the danger of emotional disagreements and conflict.

CASE EXAMPLE #1: HELP FROM WITHIN

This large, complex family was full of fault lines on nearly every dimension—geography, politics, priorities, style—beginning with the senior couple and extending down through the second and third generations. When the differences began to make consensus grantmaking impossible, they needed a structural solution that honored many varied views for the best process. They eventually designed a new organizational structure with semi-autonomous regional committees, and timed its implementation with the generational change in leadership.

The first 3rd generation Board Chair knew that one of his primary roles in the early years was to help with the healing from the divisions that had occurred. By all accounts, he fulfilled this role admirably. Many family members from all branches reported that he was a great person and Chair, a wonderful force in keeping the family together, and an excellent mediator. "He had an ability to embrace everyone".

How can the foundation possibly counteract this potential? The work of maintaining a "we" mentality in the face of such pressure favoring "I" agendas is never-ending. The "centripetal" side of the energy equation has to rely on historical and normative controls: Legacy, tradition, cooperative spirit, family identity, and—most distinctively—donor intent. Over time families come up with a variety of techniques for remaining collective. In these cases we found many different strategies at different times, such as:

- an established, strong central authority, where a sequence of leaders set a common theme and enforce it
- *quid pro quo* arrangements and discretionary funds, where a collective equilibrium is established and each individual or branch does its own thing and does not interfere as others do the same
- "pruning the tree," where a subgroup takes control and others leave or become completely passive
- "passing the baton" to professional staff and consultants, so that the family's diversity becomes irrelevant

We found ample evidence of all of these strategies, and variations on each, in this research. The final report will explore each one, with case examples and a discussion of the positive and negative consequences of each path. For example, the discussion of "pruning the tree" is not only about keeping the size of the board to a reasonable working level. The criteria for selection are always in flux, at the acknowledged and unacknowledged levels. We found a common tendency for some of the individuals or branches to be per-

CASE EXAMPLE #2: DELAYED COLLABORATION

For 20 years this very successful founder ran the foundation as a Controlling Trustee. In the last decade of his life, he invited his three children to join the board. They had never had a close relationship with each other, so the foundation gradually evolved a "*quid pro quo*" system of informal discretionary funds. Each offspring made her/his own decisions without interference.

This system continued after the death of the founder, but came under pressure a few years later when the death of their mother increased the endowment almost seven times. For 20 more years the second generation struggled to find a workable balance between individual agendas and collective action. They expanded the board in steps, adding younger generation members and always maintaining rigid parity across branches. But they could not resolve the tension caused by a lack of any true collaborative history or process.

As in most foundations that do not confront governance and authority directly, the issue emerged as if it were about grantmaking programs. One branch favored a "program-oriented approach," arguing that the best expression of "donor intent" is a strong strategic focus on the causes of interest to the departed founders. "Some of us feel it's unethical to give to causes we're personally involved in. It leaves a bad taste in our mouths. Giving to your alma mater just promotes you. We want to get away from tradition and make an impact either geographically or on an issue." Another branch championed "personal philanthropy," using "donor behavior" to justify direct involvement in grantees they know well or have a personal stake in. "The foundation will lose the personal touch that comes from individuals giving away money to causes and organizations that they are involved in or know well. The foundation will no longer really be a family foundation, but will instead end up in the hands of professionals."

At this point in their history, the resolution has been put in the hands of a non-family trustee, who has the confidence of all sides and the political savvy to move them slowly toward more conceptual programs, which he favors. They have begun to reduce their reliance on unreviewed discretionary funding. But the road ahead is uncertain.

ceived as less competent, sensible, rational, collaborative, or dedicated than others. It is hard for family leaders to acknowledge their concerns about giving equal access to all members of a category of relatives.

When the founder generation makes choices they are often reluctant to be open about their reasons. They avoid formal policies for as long as they can, to keep their hands from being tied about differentiating. They stretch for rationales for exclusion. Sometimes geography can be used, or age. Sometimes the limits on branch representation are set so that a potentially problematic individual can be avoided. In other cases none of these straightforward criteria quite fit the situation, so more subjective reasons are invoked. "We invited "Sue" and not "James" because she was closer to her grandparents." "'Jane' is so busy with her own career and her children right now that she doesn't have time for the foundation."

One common history in families that use the "pruning the tree" or "rationalized exclusion" strategy is that it is always temporary. All of those families eventually had to deal with how to handle the next generation. Children of demoted or excluded parents do not automatically accept the role that their parents were assigned.

In some of the cases the part of the family currently in control is forced to a more formal separation. In other cases, the cousins are interested in reversing the hierarchy of the sibling generation, and actually seek to bring children of less-involved branches back into the process on an equal footing. In several cases, when the cousin generation invested in careful planning and a comprehensive redesign of the governance organization, this was completed very successfully. The family made a "one-generation" detour around a difficult individual without permanently excluding that branch from the process.

A different structural solution is to not attempt to hold a single center, but to bifurcate into two or three centers. Each one can attract participants who not only share more of a common programmatic vision, but also an overlapping agenda of social role, self-expression, and grantmaking style. The final study will explore the advantages—and disadvantages—of these and other solutions.

A LOOK AHEAD: PREPARING THE FINAL REPORT

The analysis of these cases makes it clear that there are different kinds of philanthropic organizations called "family foundations," and they represent different purposes, structures, and developmental stages. We found three types that covered most of the foundations in our sample. All of the cases were either in one of the three, or in transition from one to another. The types are:

- The founder/donor controlled foundation.
- The collaborative family-operated foundation.
- The family-governed professionally-operated foundation

They are not developmental stages, because a foundation could start in any one, stay in any one, or move back and forth. Nevertheless, there is a tendency for foundations to move from the first to the second, and sometimes to the third, over time. In the final report, we will explore each of these types in more detail. In particular, we will integrate the individual lessons taught by these foundations into a set of clear pathways and the choices that distinguish them. This will include:

- ***Implications for operations:*** The specific needs for strengthening nearly all organizational areas, the lessons about the benefits of professionalization of operations and financial controls, and the options that families have for improving organizational performance and family governance.

- ***Implications for the family:*** The remarkable opportunity the foundation provides for extraordinary work, and the potential of that work to remake the family. We will concentrate on lessons concerning empowerment, skill building, redressing inequities and old grievances, expressions of pride, and building a process for the continuity of family involvement across generations.

- ***Implications for the community environment:*** Finally, our analysis will put the foundation in its broader context, within its community and the economy in general. Many of these foundations reached a kind of turning point in their histories when they began taking more seriously their social role, their public responsibility, and their potential for social engineering. The choices in this area and their implications for the community and the family will be directly addressed.

TO RECEIVE INFORMATION ABOUT THE FULL REPORT

The full report for the **Generations of Giving** *project will be available in late 2003. To receive additional information about this study, including an order form for the full report, please send an email to ncfp@ncfp.org with "GOG Report Request" in the subject line.*

CONCLUSION

We believe that the most important audience for the lessons from this study will not be the surviving multi-generational foundations themselves, but those who have recently established or are thinking about starting one. If the families included in this study could speak to these "philanthropists in the making," they might encourage donors to recognize the true nature of the spectacular opportunity that they have been given. It is hard to imagine any other moment when they will have the same chance to do the right thing in such a profound and significant way:

- For their families, making it possible for them to be genuinely selfless, to give of themselves without tangible reward, to save or enrich lives, to voluntarily contribute and to earn the right to feel profoundly proud;

- And for their communities, to return resources to their source, to accomplish in a small or large way a leveling of the playing field, and to uphold the very best of the democratic tradition.

By Kelin E. Gersick, Ph. D., (with Deanne Stone, Katherine Grady, Ph. D., Michele Desjardins, and Howard Muson)

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1) We value the participation of individuals and families in private, organized philanthropy.
2) We value the donor's right and ability to direct charitable assets through the philanthropic vehicles and to programs of choice.
3) We value both the concern for privacy and the responsibility of a public trust that are inherent in private, organized philanthropy.
4) We value the pursuit of excellence in philanthropy.
5) We value the role that philanthropy and philanthropic citizenship plays in a civil society.
6) We value the participation of new voices in our field
7) We value collaboration and respect our colleagues in this work.

A full statement of these values and guiding principles is available on our website at **www.ncfp.org**.

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