THE FAMILY FOUNDATION CEO

CRAFTING CONSENSUS OUT *of* COMPLEXITY

A NATIONAL CENTER FOR FAMILY PHILANTHROPY RESEARCH REPORT

NATIONAL CENTER
FAMILY
PHILANTHROPY

The National Center for Family Philanthropy is the only nonprofit resource dedicated exclusively to understanding, supporting, and advocating for philanthropic families. Its staff of experts and researchers bring 100 combined years of professional experience in the field. Its Family Philanthropy Online Knowledge Center is the largest database of resources on family giving, and it is the largest publisher of seminal research and specialized content in the field.

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Introduction

A major report focusing on the family foundation chief executive—and the research behind it—marks a broadening of the National Center for Family Philanthropy's sights as it seeks to understand and represent what makes family philanthropy not only unique but effective. The National Center has focused until now, quite properly, on the roles of donors, boards, families, and family members as central agents in the story. That will continue to be the case.

At the same time, we recognize how critical it is to a full understanding of family foundations that we not limit our scope. There are many other members of the cast who play key roles. For years, chief executives have told us of the nuances, the joys, and the challenges of their work. Three years ago, we decided to undertake a study of the role of the family foundation chief staff person in ensuring family philanthropy's effectiveness. It was time, we determined, to examine—and honor—their efforts with the same rigor we have dedicated to other research studies.

If the last few years of inquiry, intense conversations, research, and analysis have demonstrated anything, it is that the ability of family foundations to serve their public purpose depends in no small measure on the quality of their chief executives. Further, because these staff leaders are positioned between family and board and the communities they support, we have learned they play a pivotal role in advancing not only the family's charitable leadership but also the contributions and leadership of their grantee partners. Of course, the ultimate responsibility for the wise, prudent, and ethical guidance of a family foundation lies with its board; this report makes it clear that the board's responsibility is best carried out when supported by intelligent, creative, sensitive, and unselfish executive leadership.

Indeed, this statement is true regardless of a family foundation's asset or staff size. A chief executive may provide part-time support for a grantmaking budget of a few thousand dollars or oversee dozens of staff members and a giving program in the tens of millions. In all family foundations, the complexities of governance, community leadership, management, and family participation demand nuanced executive attention. Yes, significant resources can escalate the stakes, but so can a scarcity.

The ability of family foundations to serve their public purpose depends in no small measure on the quality of their chief executives.

To say that staff leadership is important is not enough. How is it important? How are these leaders identified and supported? Where do they come from and what qualities do they bring? Are there particular opportunities and challenges attendant to family foundation staff leaders? What makes them effective? Are there resources and programs that could be developed that would enhance the ability of the family foundation chief executive to do his or her work?

The National Center ventured into uncharted waters. There was no baseline data on family foundation CEOs from which to build or to track differences over time. The barriers we had faced previously in studying family foundations once again made this work difficult: there is no legal definition for a family foundation; family foundations tend to self identify; many are staffed by intermediaries (law firms, financial institutions, etc.); many family foundations have volunteer management; others have a family member executive who may work full time with or without salary.

Not surprisingly, we discovered that some long-held family foundation concerns persist. The fear among family members of staff dominance is a case in point. Conversely, there are family foundation CEOs who worry that over-identification with family may undercut their own authority and ability to act in the best interests of the organization.

Any methodology had to factor in these and other vagaries. After all, there are almost 40,000 family foundations in the United States alone. While no formal estimate exists, a reasonable assumption is that several thousand family foundations employ a chief staff person. But, the simple fact remains: as philanthropic families move from one generation to another, or even if some of them choose to limit the lifespan of their foundations, the need for capable family foundation staffs and executives becomes more urgent.

By 2009, we had determined that the time was right for studies, resources, and programming focusing on the staffing side of the family philanthropic equation. The Center created a national advisory panel to help guide the research, educational, and resource efforts of what came to be known as the CEO Initiative. To be clear, the terms "chief executive" and "CEO" are loosely used to identify the principal staff executive. We are mindful that a variety of titles are used including executive director and president, among others.

Having written the concept papers for both the Initiative and the research study, and fascinated with the subject itself, I took on the initial investigations by interviewing 60 current and 5 former family foundation chief executives. These CEOs were chosen because they represented a variety of foundation asset sizes, geographies, tenures, and experiences. Interviews generally lasted from one to three hours – about half conducted in person and half by phone.

Interviews uniformly focused on several critical aspects of the careers and specific organizational dynamics of these executives: their study and occupational backgrounds; how each became aware of and were attracted to the foundation (or advisory) position; the hiring process, orientation and early experience in the CEO position; the roles they play with the family and foundation; and their relationship with the board and board chair; the qualities that, in their judgment, help make them effective; the challenges they face as stewards of the families and institutions they serve; the courses of their professional development and renewal;

Of course, the ultimate responsibility for the wise, prudent, and ethical guidance of a family foundation lies with its board; this report makes it clear that the board's responsibility is best carried out when supported by intelligent, creative, sensitive, and unselfish executive leadership.

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how performance planning and assessment is conducted; and their future plans. In almost all categories, questions were intentionally open ended in order to ensure that interviewees raised and framed issues on their own, rather than feeling led to any response.

To provide broader perspective and context, we commissioned two parallel research efforts. National Center Senior Fellow Alice Buhl conducted fourteen interviews with family foundation board chairs and leaders to gauge their perspectives on staff leadership. Alice also reviewed the literature and research that had been developed for chief executives of family businesses. Since the founding of the National Center, we have often found important guidance on leading a successful family enterprise from our colleagues working with family businesses.

Second, we contracted with The Johnson Center on Philanthropy at Grand Valley State University (where I have served as a Visiting Scholar) to conduct an online survey of some 200 family foundation chief executives as well as to undertake a literature search.

To vet early findings, preliminary presentations were shared at a national symposium of family foundation CEOs, a national teleconference, and a special retreat for family members who serve as chief executives of their families' foundations.

In the end, our research unveiled important findings and insights. Some confirmed preconceptions; most reinforced our sense that family philanthropy is better understood as a result of formal inquiry into staff (and specifically in this case, CEO) dynamics; and, often we were led to new, even surprising, conclusions. All form the basis for a fuller appreciation of the family foundation chief executive, for new resources to support their work, and for additional research to come.

VIRGINIA ESPOSITO
President
National Center for Family Philanthropy
January, 2012

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BY VIRGINIA ESPOSITO

Gleaned from the information and insights shared by all CEOs interviewed, this section highlights the key themes raised by those conversations. Analysis of the interviews involved:

- Transcribing each individual interview in detail. Answers to like questions were compared and contrasted. (The list of issues addressed in interviews is included in the box on page 24.)
- Based on the strength of common responses, a percentage was assigned to each finding to determine the shared nature—or the uniqueness—of the responses. For example, "more than half of all interviewees stated that family involvement in the foundation was not discussed."
- After reviewing the findings with symposium, teleconference, and retreat audiences, deeper analysis explored the principal lessons—or Key Themes—raised by the interviews. For example, 50% of all CEOs have worked in a nonprofit organization with some explicit responsibility for fundraising and many CEOs raised this experience as an important perspective on their current responsibilities. Both of these findings prompted two possible themes: family foundation chief executives may be more personally aware of and sensitive to the development challenges of applicants; and the pool of trusted colleagues a board may turn to for a CEO may be significantly expanded to include their grantee network.
- With like responses, percentages, and key themes developed, representative quotes from interviews were excerpted to highlight the personal response to the questions. As all interviews were confidential, no attribution for these quotes is included.
- Finally, the order in which the key themes appear owes nothing to an attempt to "weight" the importance of the themes. All interviews began with background, history, and the search process; therefore, that is where the key themes begin.
- That said, there has been an effort to prioritize potential new resources and projects. For example, given the strong interest in the hiring process, the first year on the job, and performance reviews, the National Center commissioned and published three guides focused on each of those areas.

The Search

"Most hiring processes miss the full picture."

BEFORE THE SEARCH

TAKE STOCK

According to interviews, the most important work a family foundation board may undertake in selecting a new CEO happens before a job description is drafted or a position announcement is released. That work involves taking stock of where the foundation is and where the founder/board/family wants it to go. Does the decision to hire staff for the first time or a change in staff leadership present an opportunity for reflection on grantmaking priorities or approach, current governance structures, or family participation? What kind of future do you envision for the foundation and what kind of CEO do you need or want to help you realize that vision?

Interviewees reported that some boards did this with the help of a family foundation consultant, some with a search firm and some, more rarely, on their own.

DISCUSS FAMILY PARTICIPATION

More than half of all interviewees stated that family involvement was not discussed in the hiring process. Subjects speculated that the family was reluctant to discuss family dynamics so early in the relationship or with strangers or that it never occurred to the board to raise family issues. Many CEOs acknowledged that they were unfamiliar with family foundations prior to the search process and did not realize how important it might be to ask questions about family involvement.

With the benefit of hindsight, CEOs recommended that the interview process (at least in the later stages of the process) raise the foundation's goals for family participation as well as family dynamics that affect the work of the foundation. Include pressing current issues: any past or anticipated change in board leadership; processes for selecting family members for board service; next generation interest; differences of opinion on foundation policies or priorities; and the founder's hopes for family participation going forward.

USING A SEARCH FIRM

One of the key findings of the interview study was that more family foundations are using professional search firms to guide them through the hiring process. Half of all CEOs interviewed were hired as part of a process assisted by a search firm. The majority of those hired in such a process noted it was the first time the foundation had used a firm to help with the process. Those completing the online survey were less likely to have been part of a search firm process.

Those that were familiar with search firms recommended using a firm experienced in working with family foundations. They noted how helpful search consultants could be in raising issues of family participation and in identifying candidates likely to be successful in a family foundation. Some also believed the board found it easier to focus on the decision when the details of the search were competently managed.

Half of those family foundations that did not use a search firm did use a family foundation consultant, often one who had previously worked with the foundation. Those foundations that preferred not to use or that could not afford a professional search firm noted that it was still possible to develop a thoughtful search process and implement it successfully. The CEOs cautioned, though, that self-led processes take serious time and work.

There is Help for Your Staff Transition

If you are going through a time of transition, due to the death of your donor, an influx of assets or the inclusion of a new generation on the board, consider engaging a family foundation governance consultant to help you work through these issues first before you engage a search firm to help you find a new a CEO.

Assessing where your foundation stands now and where you want it to go takes time, so don't delay. If you anticipate your current CEO plans to retire in the next couple of years or you are ready to shift from being an all-volunteer to a staffed foundation, start the reflection stage now. It might take your board a year to work through what the foundation will need in its next leader. That puts you in a better position when you are ready to go through the search process—which can also take several months. If the CEO's departure is more sudden, you may have to compress the reflection stage, but don't skip this step.

Excerpt from the National Center for Family Philanthropy publication, "Help Wanted: The Complete Guide to Hiring a Family Foundation CEO," © 2012.

IDENTIFYING CANDIDATES

KEY THEME: Family foundations CEOs increasingly come from nonprofits and have experienced the life of a fundraiser.

EXPANDING THE "TRUSTED NETWORK"

Founders and family foundations have historically reached out to trusted networks as potential staff leaders: business colleagues; legal or financial advisors; family members; and friends. Increasingly, that trusted network is including former grantees. Almost 30% of CEOs are former grantees of the donor/foundation. Some 50% of those interviewed had been nonprofit staff members and grantseekers.

THE LIBERAL ARTS AND CREATIVE CAREERS

There has been some speculation that most family foundation CEOs are legal eagles and financial fanatics. It is somewhat surprising then to learn that the academic backgrounds and former careers of the interviewees are significantly more varied.

The study of law and finance did account for 10% of subjects' academic backgrounds. But incumbents were far more likely to have studied (in order): Journalism and English; Education; History and Political Science; or Psychology and Child Development. Other fields of study include Economics, International Relations; Business; Art History or Management; Sociology; Philosophy; Women's Studies; and Nursing.

When it comes to former careers, a full 50% of all interviewees have worked in a nonprofit organization, almost all with an explicit responsibility for fundraising. The next largest group is former teachers (20%). Other past careers include: business and finance; the law; government (mostly state and municipal); the military; and nursing. Some 5% mentioned time spent in the Peace Corps, VISTA, and CORO.

Another surprise came in the number of those who had previously worked in a foundation. While such a career ladder is still rare (supported by the online survey), 20% of interviewees had worked in a foundation prior to their current position, though not necessarily a family foundation. For those who moved from an independent, corporate, or community foundation to a family foundation, the differences in the family foundation culture and experience were notable. It took time to both educate oneself and to adjust to working in the new environment.

They're All CEOs of Family Foundations

What do lawyers, ministers, a lot of teachers, military officers, nurses, politicians and government officials, investment advisors, Peace Corps and Vista volunteers, a public relations executive, and many, many fundraisers have in common?

THE "IN HOUSE" CANDIDATES

In identifying the new CEO, you may find there are hopeful candidates right in the family or on the board or staff. When this is the case (or even when it is a possibility), CEOs strongly advise that the process for considering and vetting such candidates be explicitly discussed and openly shared.

Several CEOs noted that their boards and search committees ignored such candidates or handled their candidacies awkwardly. In an effort to avoid hurt feelings, many more hurtful situations were created. Further, such practices made working with the passed over candidates a challenge for the new chief executive. Some interviewees spoke of damaged relationships that lasted years, the result of a process they didn't control.

How CEOs can best support family leadership

- Understand and establish boundaries
- Believe in and respect family members
- Know your own limits
- Understand and uphold ethics and integrity

—Alice C. Buhl

SPECIAL NOTE: A related—and potentially equally uncomfortable—issue is the role of the outgoing chief executive in the search process. Several CEOs described painful transitions when the outgoing executive participated in the search, was present in the office for long months after the new CEO was named, or the awkwardness of trying to acknowledge and respect the past leader while mounting enthusiasm and new directions for the future. Beyond the option of being interviewed by final candidates or the newly confirmed appointee, overwhelmingly most felt that the best role for an outgoing CEO is very, very, very low key.

TAKING THE POSITION AND GETTING STARTED

"I was attracted to the kind of leadership the foundation wanted—more finesse than ego. That fit both my sense of and experience with leadership: crafting consensus out of complexity. I came away with the feeling of liking the place and loving the work."

WHY ACCEPT THE POSITION?

Candidates decided to take the position with their family foundations for many reasons but most spoke of recognizing a connection between the founder, the foundation, or the family and themselves. For some, it was a shared passion but many mentioned shared values—deeply held values—that influenced grantmaking strategy and priorities as well as relationships. CEOs felt those shared values laid the groundwork for a solid professional move as well as for a sense of personal satisfaction.

For those who had worked in a nonprofit previously, some discovered a new way to make a difference and to do good work. Not surprisingly, the lack of fundraising stress was very appealing.

Others spoke of the chance to be part of a moment of opportunity for the foundation. Transitions bring constructive upheaval and there are opportunities to be found. Candidates were excited by the sense of possibility and the chance to be instrumental in realizing the foundation's dream for its future.

ORIENTATION

KEY THEME: Structured orientations for family foundation CEOs are extremely rare. The same effort that goes into identifying the new chief executive should go into positioning that candidate for success.

OVERLOOKED BY BOARDS OF DIRECTORS AND CEOS

Some 80% of CEOs had no orientation to their new position, the field or the board and family. Most boards are so happy to have confirmed their new CEO that the process ends prematurely. Chances are the search was long and exhausting. The delight in having confirmed a terrific candidate gives everyone permission to go home or get to work. But it is not just boards that overlook the value of an orientation period; many CEOs described immersing themselves in the work and missing the value of planning an orientation. As one said, "I plunged into the work and never thought about it. I quickly came to regret it."

SELF-INITIATED ORIENTATION

Where they occur, most CEOs plan their own orientation. The most common elements of such orientations include:

- Interviews with all board members and key family leaders. Wherever possible, most CEOs recommend those interviews be conducted in person.
- Interviews with all staff members, key advisors, and principal grantees.
- Meetings with fellow family foundation CEOs, leaders in the philanthropic field, and community leaders (especially if the foundation has a geographic focus).
- A few CEOs attended regional, national, and programmatic conferences in the early days. However, most noted that they rarely make time for such conferences, although they support staff wishing to do so.

A somewhat surprising yet happy finding was the extent to which orientation periods are supported peer-to-peer. In some cases, fellow family foundation CEOs reached out to new colleagues to offer their support, take them to lunch or just be available for questions. Those new CEOs who reached out to other CEO colleagues spoke of the generosity and warmth of the response.

Colleague-to-colleague support is not just a fact of life for new chief executives. Many CEOs continue to participate in monthly discussion groups or other occasional gatherings where leadership dilemmas and circumstances can be shared in a confidential and supportive setting.

Regardless of whether there is a formal orientation or a more casual self-initiated process, interviewees overwhelmingly confirmed the need for some activity whereby the board and the CEO clarify mutual expectations as to goals and immediate priorities.

THE MANY ROLES OF THE FAMILY FOUNDATION CHIEF EXECUTIVE

"We are stewards of an incredible asset."

Listening to the incredible variety of roles described by interviewees, something of the range and complexity of the demands on family foundation CEOs was revealed. It was also evident that this range may not be fully grasped by boards, families, and other stakeholders. "My board has no idea what I do" was a fairly common introduction to the portion of the interviews where roles were described. Others spoke of presenting a face to the community that does not—and should not—communicate internal politics and pressures.

In addition to the lack of understanding of the demands on the family foundation CEO, five key themes emerged in this portion of the interview sessions:

- There are demands inherent to most CEO positions but also more family foundation specific demands involving board priorities, family preferences, community expectations, and grantmaking leadership.
- There is an apparent relationship between the time spent on governance and time spent on family matters.
- Families have very different expectations of the CEO role in preparing future generations of the family for philanthropic leadership.
- CEOs of family foundations learn to put out fires well but there is a risk to exercising that skill too often.
- CEOs' attitudes toward the family nature of foundations influences the way they play their role and their satisfaction in the position.

The Board-Centered CEO

Research conducted by Herman and Heimovics (1991) found that especially effective nonprofit chief executives differed most from their counterparts not in their fundraising prowess or their management accomplishments per se but in how they treat their boards. They describe six specific competencies associated with the "board-centered" chief executive:

- Facilitating interaction in board relationships
- Showing consideration and respect toward board members
- Envisioning change and innovation with the board
- Promoting board accomplishments and productivity
- Initiating and maintaining a structure for board work
- Providing helpful information to the board

The Jossey-Bass Handbook of Nonprofit Leadership and Management © 2010 by John Wiley & Sons, Inc.

MANY DEMANDS, MANY ROLES

CEO roles are very much a function of decisions boards have made about grantmaking strategy, management (including investment management), public recognition, advocacy, and staffing. For foundations of some size, there may be staff to manage as well as more sophisticated investments to oversee. Some family foundations contract out legal compliance and investment management so that their chief executives may play little to no role in those functions.

The Servant Leader

Your management style is as important as your actions. Douglas Bitonti Stewart, executive director of the Max M. and Marjorie S. Fisher Foundation in Detroit, Michigan, believes very much in the servant leadership role for a CEO. "You have to hold the job with an open hand, even when you want to clutch tightly. Your role is to serve the mission of the foundation, the board, its grant partners, and those you intend to serve."

Excerpt from the National Center for Family Philanthropy publication, "The First Year: A Complete Guide for the Family Foundation CEO," © 2012

Foundations who use an administrative management firm of some kind may want someone to focus specifically on grantmaking and family/board priorities. Foundations with a highly sophisticated grantmaking strategy may require a CEO who is as much program expert as strategist. Further, they may want a CEO to take an active role in advocating for their causes or approach. A community leader, more than an internal manager, may be preferred. Numerous interviews referenced working with city and state governments, school systems, and other leaders in the community where collaboration could advance the foundation's mission.

Boards and families who wish to be less visible may turn to a CEO that can be the public face of the foundation. Other CEOs see their role as helping board and family leaders take a more public role in the work of the foundation while keeping a lower profile themselves.

Depending on family involvement and circumstances, chief executives may be required to be family facilitators/mediators, legacy keepers, and mentors to younger generations. In times of family and foundation transition, staff may support stability and continuity. Interviews revealed that such support is particularly crucial in times of family sadness or tragedy. Even CEOs who stressed that family matters be kept out of foundation business noted that critical transitions often called for sensitive staff leadership.

While roles can be varied or intermittent, interviewees tended to agree that the principal role is to be, as one person described it, "the bridge between the family's philanthropic aspirations and the results."

ATTENTION TO FAMILY OR GOVERNANCE

In perhaps the most striking finding, half of all interviewees did not report any role in advancing effective governance. An additional 15% reported spending 20% or less time on board/governance matters. Most intriguingly, the same 65% of CEOs that reported minimal or no role in governance, reported spending 40 – 80% of their time on family matters. Conversely, interviewees that reported spending 25 – 35% of their time on board development either did not mention a role in family matters or reported spending less than 10% of their time on family.

Encouraging family participation in philanthropy is the great opportunity of family foundations; ensuring good foundation governance is the great responsibility.

A number of factors might account for such a discrepancy. Perhaps some CEOs equate board work with family work. Likely, some families look to their CEOs for much more personal support than others. But one thing stands out in the stories told by chief executives on both sides: there needs to be more attention to distinguishing between the critical need for CEO support of effective foundation governance and any appropriate support for family matters. Encouraging family participation in philanthropy is the great opportunity of family foundations; ensuring good foundation governance is the great responsibility.

A provocative question emerged from all interviews: could more attention and support for governance as a foundation imperative decrease the time spent attending to personal family matters that have little or no bearing on the foundation's (and, therefore, the CEO's) work? A fair conclusion could be that by setting our sights on the goal of having highly functioning boards, and a good working relationship between boards and chief executives, it may be possible to reduce CEO time and attention to family functioning.

WHO RAISES CHARITABLE CHILDREN?

Another difference among family foundations is the extent to which they look to the foundation—and the CEO—to support (or lead) the charitable development of younger family members. In most cases, CEOs report they are expected to provide some measure of support or guidance for developing the philanthropic leadership potential of the next generation.

In some foundations, the principal responsibility for developing and managing a variety of next generation strategies rests with the CEO. These strategies may include junior or associate boards, training or educational sessions, discretionary grantmaking, site visits, conference attendance, etc. Managing these activities makes sense to many foundations and CEOs. Where it becomes more difficult is when the CEO is expected to inspire and sustain the next generation's interest and participation in the foundation.

FROM FIRE TO FIRE AT WHAT COST?

In describing their various roles, chief executives commented that they had become very adept at "putting out foundation and family fires." Given their leadership experience, knowledge of the family, and facilitation skills, CEOs report moving quickly from grantee crisis to staffing crisis to investment crisis to board crisis to family crisis, and on and on. Their attention and time turns nimbly from situation to situation. All are efficiently and effectively managed. But at what cost?

Effective leadership means as much time for fire prevention as for putting them out.

When stories of crisis management are recounted as frequently as these, an appreciation develops for the situational leadership skills of family foundation CEOs. But situational leadership potentially can preoccupy the staff leader to the detriment of the big picture. After all, the CEO needs time to look at recurring crises and recommend and implement needed changes. Also, the CEO is responsible for looking ahead to how internal and external factors may be shaping the future of the foundation's mission. Effective leadership means as much time for fire prevention as for putting them out.

VALUING THE FAMILY NATURE OF FAMILY FOUNDATIONS

Some 90% of all interviews reveal that CEOs feel a deep appreciation for, and connection with, the donor family. They report the joy of working with people who are both committed to their causes and communities and to the staff for their partnership and support. The participation of family enhances both the work and the CEO's sense of satisfaction, even while they acknowledge that the course of "family-ness" doesn't always run smoothly.

It was the very rare interview that revealed any ambivalence or resistance to family participation. However, several subjects did worry that being over-identified with the family may undercut their authority and ability to act in the best interests of the organization. There is no shared definition of a family foundation nor a universal sense that family value outpaces family difficulty. Yet the label "family foundation" implies a legacy of one family's personal philanthropic commitment; that, in itself, is worthy of celebration.

There is no "Family Foundation CEO for Dummies"

I am interested in this research—we need to do more as a field to quantify and qualify our work. At the same time, I would caution against too much introspection lest we take ourselves too seriously. Our work is both art and science. There is no rule book. Developing a narrative can be useful, but we must also be aware that this is not work that can be described in a manual. There is no "Family Foundation CEO for Dummies," nor should there be. It is work that constantly requires and exercises creative thinking. Intuitive responses are required as often as analytical decisions. It is this level of variety that has allowed me to stay energetic and enthused by the work going into a second decade.

—Open Response in Online Survey

The Effective CEO

"The most important quality I bring to my position is that I understand what it means to be empowered but not be the center of attention"

KEY THEME: The effective chief executive has a strong sense of self and is as emotionally intelligent as he or she is smart. These CEOs deal with challenges with candor and diplomacy and make time for those activities that sustain their energy and commitment: performance planning and assessment as well as personal renewal.

QUALITIES

Interviewed chief executives were asked a completely open-ended question in this portion of the conversation: which of your personal and professional qualities have helped you to be successful in your position? It was, therefore, somewhat surprising that there was such agreement about the personal qualities that serve a family foundation CEO well.

MORE THAN INTELLIGENT

As one might expect, all interviewees were highly intelligent and articulate. Yet, less than 5% of interviewees mentioned intelligence as it might be traditionally defined. On the other hand, almost 70% of subjects spoke of emotional intelligence. Men and women alike spoke of the ability to go beyond "book smart;" they used terms like intuition, sensitivity, empathy, diplomacy, and emotional intelligence. This quality was as critical to work in the community as it was to the family circumstances. One was frequently reminded of a phrase used to describe the late family foundation trustee Paul Ylvisaker: "he listens for the things that have no words."

Previous National Center for Family Philanthropy studies, including Generations of Giving *(Lexington Press, 2004), revealed that most family foundations do not experience a great deal of outright conflict. They do, however, experience significant conflict avoidance.*

RESPECT THEM ENOUGH TO BE CANDID

The need to be more emotionally sensitive to both family and community dynamics was never mentioned as an excuse to sidestep the CEO's responsibility to offer honest input in difficult situations. Interviewees strongly believed that the CEO must respect the family, board, or community enough to be candid and forthcoming.

Previous National Center for Family Philanthropy studies, including *Generations of Giving* (Lexington Press, 2004), revealed that most family foundations do not experience a great deal of outright conflict. They do, however, experience significant conflict avoidance. Interviewed CEOs reflected that such avoidance only exacerbates tensions and raises the level of discomfort and mistrust. "I respect my board enough to be as constructively forthcoming with them as I possibly can," was a sentiment repeated in dozens of conversations. Reluctance to be as candid as might be necessary was linked to affection, the fear of getting in the middle of a personal situation, and the consequences of speaking truth to power.

What is the Board Role? What is the Staff Role?

In the transition time between CEOs, Boards should discuss leadership roles around a few specific issues. The Board's thoughts should be shared with final candidates and reviewed annually, as their thoughts and priorities may shift over time.

- Intellectual leadership
- Developing vision, mission, operating principles, core strategies
- The grantmaking chain including strategy development, identifying new grantmaking areas, recommending grants (or not), and deciding on grants
- Promoting the foundation and its programs in the community
- Investments
- Working with the next generation
- Identifying new board members
- Negotiating family differences related to the foundation
- Regional or national volunteer leadership roles for the CEO

—Alice C. Buhl

CALM, COOL AND COLLECTED

Every interview mentioned at least one of the "Big Cs:" calm; clear; collected; centered; and committed. Given the universality of this response, interviewees were prompted to explain the quality and the need for it.

The family foundation was described as a constantly evolving and moving force. Further, while affected by the same environmental factors as other organizations, it is also often driven by more emotional circumstances: family legacy; grantee loyalty; and personal interpretations of values and missions among them. CEOs stressed that they have the option to add to the complexity and emotionality of situations or to be clear and rock steady throughout them. Not only did they advocate for leading with objectivity and consistency, they believe this is the only posture for an effective staff leader (and one who wants to be around for some time to come).

CLARITY (WITH A HIGH TOLERANCE FOR AMBIGUITY)

Largely due to some of the same forces described above in the need for calm leadership, the ability to provide clarity in the face of ambiguity was mentioned in more than 50% of interviews. While most of these interviewees spoke of the need to raise key questions and offer a range of possibilities, they also noted the concomitant responsibility to offer clarity and direction. As one CEO put it, "I hope to craft consensus out of complexity."

A HEALTHY EGO (AND THE CIRCUMSTANCES THAT TEST IT)

At one time or another, in a variety of different interview segments, all interviewees spoke of personal ego. For some, this came in the shift from nonprofit advocacy to more facilitative leadership. For others, it was understanding their leadership role within the context of the board role and family participation. For still others, it was being clear about the higher goal. As one CEO said, "is it more important to build an empire inside the foundation or in the community?"

The discussion of a healthy personal ego took a very different direction depending on whether the CEO was a member of the family or not. For non-family member CEOs, it was critically important early in their tenure to confront the reality that they are not members of the family. Many circumstances were described that could lead them to be fuzzy about that fact.

Mutual affection can be wonderful but can also cause confusion. Some CEOs report that board and family members often say they feel the CEO is a member of the family. The savvier ones were aware how quickly that could change if they overstepped appropriate boundaries.

Additionally, those with a very active role in the community might confuse where the power and prominence rest. It was stressed by 70% of current CEOs (and 100% of former CEOs) that chief executives see themselves as representatives of the family foundation, not as members of the family. Such caution was particularly urged on those CEOs whose board or family prefers a lower key or less visible role in the community. In cases where the CEO is the most prominently visible representative of the family/foundation, it can be easier for the community—and the chief executive—to appreciate the distinction.

Steps CEOs Can Take to Increase Their Own Effectiveness

- Suggest and plan an orientation
- Get to know family members and learn the family culture
- Work with the board chair to clarify your leadership role
- Plan for your own professional development
- Ask for (and help develop if necessary) an assessment process
- Continue to have a life beyond the foundation
- Know when it is time to move on

—Alice Buhl and Virginia Esposito

Six Qualities of Effective Leadership

John W. Gardner cited six qualities that characterize effective leadership in his book, *On Leadership*.

Leaders:

1. Think longer term - beyond the day's crises, beyond the quarterly report, beyond the horizon.
2. Think about the unit they are heading, they grasp its relationship to larger realities—the larger organization of which they are a part, conditions external to the organization, global trends.
3. Reach and influence constituents beyond their jurisdictions, beyond boundaries.
4. Put a heavy emphasis on the intangibles of vision, values and motivation.
5. Have the political skill to cope with the conflicting requirements of multiple constituencies.
6. Think in terms of renewal.

On Leadership: © 1990 by Free Press, Macmillan, NY

The John W. Gardner Leadership Award was established in 1985 to honor outstanding Americans who exemplify the leadership and the ideals of John W. Gardner (1912-2002), American statesman and founding chair of Independent Sector. This list of qualities is used to help identify the recipient of their award.

A FINAL RESPECTFUL WORD ON QUALITIES

Almost all interviewees noted that mutual respect and trust enhance the board/CEO relationship and make the work easier and infinitely more rewarding. When appropriately given and received, respect and trust were at the heart of the experiences of those who reported the most satisfying relationship with their board and family. As one CEO commented, "respect and trust are the things you will work the hardest to earn; they also can be most easily and quickly lost."

PERFORMANCE GOALS AND ASSESSMENT

One of the most striking results of CEO interviews has to be that just under 10% of interviewees report any sort of satisfying assessment process. Of that small number, only four interviewees described being completely satisfied with that process.

Many of those who do not have an evaluation process believe the board and family are uncomfortable with the idea of assessment. Others posited that the personal relationship that develops between board and chief executive make objective evaluation particularly difficult.

Almost all family member CEOs reported that objective evaluation is not possible. Family members may be loathe to review a relative. For others, dynamics that may include old rivalries or a difficult history make the process painful and unproductive. Where family members are evaluated, often family board members are not included in the process but, instead, the process relies on non-family board members, other staff, community members and grantees.

Full Board Participation Improves Priority Setting and Performance Assessment

CEO evaluations differ from that of other staff because instead of one boss, there is a whole board weighing in. One of the risks of having an informal process where the board chair meets with the CEO once a year for a "performance conversation" is that while the two of them may have a good working relationship, the full board's participation in the review is limited. This can lead to mixed messages.

Goal setting helps board members talk out their differences and reach agreement. It also helps if you have an outlier or two on the board who have issues around the CEO's style. For example, a board member who likes lots of face-to-face, individual meetings with the CEO to keep up on foundation business can become a drain on a CEO's time. But attempts by the CEO to limit such meetings might lead to resentment by the board member. An objective discussion by the whole board about priorities on the CEO's time, as well as a conversation about how much and in what ways the board prefers the CEO to communicate with them could help the foundation deal with the problem constructively.

One CEO said that it's part of her board's culture "for every board member to have the opportunity and responsibility to fully participate. This makes for a vital, active, informed board.

Excerpt from the National Center for Family Philanthropy publication, "Performance Assessment: The Complete Guide to Evaluating the Family Foundation CEO," © 2012

The lack of an appropriate CEO assessment process may be common practice but, given other CEO research, it is hard to consider it good practice. Those few who did report a satisfactory planning and evaluation process commented that it made for an even playing field between the board and CEO. Agreement on annual goals and a discussion of accomplishments at year end enhanced communication and eliminated some of the misunderstandings that had been present before the evaluation process was implemented.

For some chief executives, the process didn't have to include forms or consultants to be useful. One method that made it possible for a resistant foundation to begin CEO assessment was to schedule a conversation for the board and the CEO early in the year. They discuss factors influencing the coming year and the priorities they share for the foundation that year. Late in the year, a second conversation reviews progress on those priorities as well as unexpected events. Those conversations form the basis for a smaller board group that makes CEO salary recommendations.

The Subtleties of Management Style Matter

One CEO of a large foundation said it was clear when he was hired that the board "did not want a command-and-control type or a person who wanted the limelight. I was clear that it was a back-seat driving operation. Subtleties matter. It doesn't work to be a show horse in a family institution. You have to find other ways to gather power and authority to move the organization forward." As for their charge to him, "the framing was we're happy with the institution, but we are hiring you because you will take what we've got and make it better." They didn't want a complete makeover.

That framing will be different for a foundation that isn't happy with where it is. "The actions you take will be different if you are trying to sustain a successful organization or trying to do a turnaround."

Excerpt from the National Center for Family Philanthropy publication, "The First Year: A Complete Guide for the Family Foundation CEO," ©2012

RENEWAL

More than a third of CEOs interviewed do not make time for any activity designed to refresh or renew themselves and their commitment to the foundation work.

Conversely, nearly 30% of interviewees make time for some personal activity (apart from the work of the foundation) that they report keeps them healthy, focused, and excited about the work. Examples of such activity include regular exercise, vacations, volunteer service, and attendance at favorite cultural events.

Another third participate in activities related to the foundation and the field of philanthropy such as conferences, board service on philanthropic associations or affinity groups, and discussion groups. Several of those involved in such activities questioned whether this was true renewal or simply an outlet for other charitable interests and leadership potential.

Interestingly, no interviewee reported having taken a sabbatical, including those who had been in the position thirty or more years and those who fund sabbaticals for other nonprofit leaders.

Make Time for Yourself

Serving as a family foundation CEO at times can be stressful and isolating. The discretion required by the position means stresses and strains cannot always be shared. Interviewees recommended a variety of activities to ensure much-needed "down time." CEOs had these suggestions to decompress:

- The time and space for quiet
- Prayer/Meditation
- Vacations
- Travel
- Naps
- Exercise
- Sabbatical

And in the context of the work:

- Either get (or be) a mentor/coach
- Take part in a CEO discussion group

What Effective CEOs Do

- They validate multiple viewpoints, define boundaries and build structures to engage with others
- They articulate and disseminate a shared understanding of the total system necessary for nurturing collaborative capacity
- They articulate a shared vision that provides direction, purpose, and meaning
- They put words to the formless longings and deeply felt needs of others
- They encourage empathetic understanding across boundaries
- They provide a bridging function that facilitates psychological ownership of shared dilemmas (they are natural "brokers")
- They adopt "principled stances" towards paradoxes that make workable compromises possible
- They focus on providing leadership not on being leaders

What Effective CEOs Do Not Do

- They do not pursue their own agendas at the expense of collective interests
- They do not "split"- polarize the groups, e.g. "the business is all rational; the family is all emotional…"
- They do not delegate dilemmas to others out of avoidance
- The do not make hollow compromises out of avoidance
- They do not foster dependency and narcissistic heroism
- They do not fall for the trappings of power

Excerpted from: What's so different about leadership in the family enterprise?
Lansberg Gersick and Associates with special thanks to Alice Buhl, Ivan Lansberg and Wendy R. Ulaszek.

Planning *for* the Future

"I hope I will know when I am no longer contributing to, or energized by, my work at this foundation."

KEY THEMES: Most chief executives truly value being part of family philanthropy and enjoy their job specifically. Most hope to retire from this job. Where there are thoughts of departure, they hope that the issues and collaborations introduced during their time with the family foundation will be part of their future. In any case, it is likely the CEO will have to prepare the board and family—structurally and emotionally—for an eventual staff transition.

Given the great personal job satisfaction experienced by most interviewees, it is not surprising that most hope to retire from full-time work from their current positions. What may be surprising is that this is true for some 75% of all chief executives interviewed, regardless of age. (The average age of interviewees was approximately 55–60.)

WHY STAY?

Personal and professional satisfaction was the most frequently mentioned reason CEOs gave for the intent to retire from their current position. Other reasons cited included a great affection for the family, the community/grantee work, a passion for the issues funded, good employment in precarious economic times, and benefits (specifically, health benefits and some type of retirement package).

Issues addressed in the interviews

- Background (study & career)
- Aware / attracted to position
- Early orientation / professional development / personal renewal
- Roles
- Relationship to board
- Qualities and challenges
- Evaluation
- Future plans

WHY GO?

For those who expect to make a career move, the reasons given included their age, their interests in pursuing a specific program issue, and the fact they believe an unusually long tenure would not be good for themselves or the foundation. Whether to full-time or part-time work, most hoped the change would be to the world of nonprofits, including positions with fundraising responsibilities. Others mentioned aspirations to move to teaching, another foundation, city or state government, or to a consulting firm.

Even those who expect to retire from their current position hope that retirement will include teaching, consulting, or volunteering.

EASING THE WAY TO CEO TRANSITION

Most of those interviewed strongly urged that incumbent CEOs not participate in any way in the search process for their successors. Unhappy stories of their own transitions shaped their belief that this is a bad idea. However, many chief executives did note that they will likely play a role in helping the board and family come to terms with the possibility and reality of a CEO transition. In fact, a few of those interviewed had already postponed their plans for retirement at the behest of the board or a family leader.

Some interviewees recommended that an incumbent CEO ensure that a leadership succession plan be adopted where one does not exist. Such a strategy can make succession planning feel more like any element of good practice and less something to be avoided or feared.

Most of those interviewed strongly urged that incumbent CEOs not participate in any way in the search process for their successors.

Special Circumstances

"The [family member] president has to set a tone of professionalism and make it clear that individual differences don't matter. We are operating on a higher level and it's the interests of the grantees that matter."

Family Foundations are so diverse that many subsets of chief executives deserve special attention. But, while many are worthy and in need of such attention, two circumstances emerged where that need is both critical and timely.

THE CEO OF THE SPEND DOWN FOUNDATION

Over the last decade or so, founders have been increasingly interested in limiting the lifespan of their family foundations. Their reasons may be grounded in programmatic impact, doing this work with people who know them well, or simply, the lack of interest in perpetual institutions. While most founders still intend that their foundations will exist in perpetuity, there is a great need for information on effective spend down strategies and on the kind of chief executive leadership needed to guide them.

Several CEOs of spend down or spend out foundations were interviewed as part of this effort. Among the issues challenging them as staff leaders, most frequently cited were:

- Developing appropriate and achievable programmatic goals;
- Managing investments in the midst of the spending down;
- Managing grantee relationships, particularly grantee anxiety toward the end of the foundation's lifespan; and
- Recruiting and retaining qualified staff members when they know the jobs will end, perhaps soon.

The issue of perpetuity

Most family foundations are created in perpetuity. But over time, the views of the board may change. More foundations are considering the question of perpetuity and some have decided that they want to end at some point in the future. If your sunset plan is only a few years away,
that will factor in to the kind of person who will be interested in your CEO job and who would be a good choice to lead the foundation through its final years.

Excerpt from the National Center for Family Philanthropy publication, "Help Wanted: The Complete Guide to Hiring a Family Foundation CEO," © 2012

THE FAMILY MEMBER AS CEO

In many foundations, a member of the founder's family makes an excellent candidate for the CEO position. The shared legacy makes family history and values more easily understood. There may also be a strong sense of trust that those same values and history will be respected and reflected in the grantmaking and management. When combined with solid experience and strong executive skills, a family member can be the best choice for the job, whether that job is full or part time, volunteer or compensated.

There are, however, special circumstances attendant to family staff leadership that aren't a part of other family foundation CEO profiles. Those circumstances include:

- Maintaining a good relationship with the Board of Directors. Disagreements between CEO and board can be easier or more difficult depending on the issue or the quality of family relationships between the CEO and individual board and family members.
- Conducting a performance review process can be especially difficult for family CEOs as board members are reluctant to offer criticism, even constructively, to a loved one. Conversely, rivalries, envy, or resentment of the CEO's position and power may also make it difficult to provide an objective performance assessment.
- Blurring family and foundation boundaries, family members often pursue foundation matters on personal occasions, making it hard for the CEO to also be "just a member of the family." Again conversely, family members may feel more permission with a family member CEO to bring family habits and behavior into the board room.
- Taking a personal role in the community apart from the foundation role. The public may perceive the CEOs' personal interests, volunteer work, or even political or religious opinions to be those of the foundation and family. And the difficulties may not be limited to the perceptions of others. Family member CEOs may expect more consideration or authority than another CEO would reasonably have a right to expect.

Regardless of whether the implications of family CEOs are positive, negative, or neutral, more consideration of all the circumstances and more support for these staff leaders are required.

Handling a Very Personal Hire Very Professionally: Family Members as CEOs

Many families are lucky to have a family member who would do an excellent job of running the foundation. Don't be tempted to just anoint that person and leave them to run things. Your board should still go through the process of assessing where the foundation is currently and where you want it to go in the future. Then, mutually agree on a written job description and a set of performance goals which you can use for periodic assessment of the family member's performance. This protects everyone, the family member and the board, from misunderstandings later and keeps the employment relationship on a professional basis.

On the other hand, you may have a family member—or more than one—who would not be a strong choice to lead the foundation. Too often, for the sake of family harmony, the family is tempted to give the job to the relative regardless of how well (or poorly) qualified. This becomes even more complicated if more than one family member wants the job.

The foundation is a public trust and does not exist to provide employment for family members. Hiring a CEO must be about the needs of the foundation, not the needs of individuals. Keeping the hiring process on a strictly professional basis can avoid problems down the road.

Excerpt from the National Center for Family Philanthropy publication, "Help Wanted: The Complete Guide to Hiring a Family Foundation CEO," © 2012

CEOs Look *to* the Future

The key themes described in this report reflect the most commonly-expressed opinions and reflections. Every effort was made to ensure a critical majority supported the conclusions drawn. However, from time to time, intriguing speculation was offered concerning the circumstances chief executives might face going forward. In many ways, this speculation may help us think about what might be happening as well as what is. In that hope, a few of these speculations are offered here.

- Preparing a foundation for the day or the generation when most family members cannot expect to serve on the board. Given that most foundations expect to exist in perpetuity and most families grow in numbers over the generations, a day or generation will come when it will be unrealistic, even impossible, to expect that most family members will get the opportunity to serve as a board member. The rare foundations that have already reached their fourth, fifth or even sixth generation already know this too well. They have faced the challenge of finding ways to capture family legacy and values and engage the family in activities, including governance, without raising expectations of individual service.

However, most second and third generation foundations still structure board service and succession with an eye toward fairness—offering all family members some chance to serve on the board. Several of the chief executives interviewed spoke of the role they play or will have to play in helping the foundation and the family make an important shift in the way board members are selected for service.

➤ Addressing the implications of an increasingly non-wealthy family and board. As families move further away from the founder's/entrepreneur's generation, it is likely that the concentrations of personal wealth will diminish. Currently, most family foundations rely on the willingness of family board members to attend meetings as needed and to pay their own way. Most also expect board members to serve without compensation.

The family foundation board composed of later generations may have little vacation or discretionary time for meetings, little ability to pay for travel and other meeting expenses, and may, in fact, have to personally pay for time off, child care, and the like. A few family foundation CEOs are already beginning to experience some of these circumstances. How can they help the family member who is not wealthy avoid looking to the foundation as a source of income? How can the CEO help the board develop policies and practices for good governance and healthy family participation that likely includes members with more modest means?

➤ Managing historically geographically-based foundations with increasingly dispersed families. Family foundations have deep roots in communities where the family grew, both in wealth and as a family. Many donors want their foundations to continue to give back to these communities. Yet, family members in our mobile nation rarely stay put and philanthropic families are no exception. Where there is a geographic commitment and a family that may have no members in that area and, consequently, no experience with it, difficult choices will be made that honor the donor, the community, and the changing circumstances of family members. Chief executives will be instrumental in guiding this transition.

Concluding Comments

A range of responsibilities tests the chief executive of any organization. CEOs may be selected for their mastery of any one of those responsibilities: the ability to make or manage money; program or technical expertise; community contacts and professional networks; the gift for mobilizing staff; among them. They may choose to concentrate on that mastery throughout their tenure, perhaps even exploiting it almost exclusively. They may enjoy great freedom and independence even as they report to a board or some other group (or groups) of stakeholders. Performance expectations are usually well understood and quantifiable. The National Center for Family Philanthropy's research into the world of the family foundation chief executive confirms that much of that general profile is true for them as well—but only up to a point. It is at that point that what it takes to be successful in the position begins to distinguish itself.

The family foundation CEO often is chosen from a trusted source: a former grantee or nonprofit colleague; a business associate or advisor; a family member. The groundwork for a good relationship is likely laid before the first day of work.

These CEOs also may be chosen for a particular expertise or experience, but it is highly unlikely they can look forward to relying on that expertise alone once they begin. Whether it is due to the size of the foundation, the number (usually few) of staff, the complexity of family, or the need to represent the foundation in many different situations, the chief executive has to be accomplished in every aspect of foundation leadership. They take on the mission and program work of the foundation, of course. But they also oversee governance, investments, administrative management, community relations, and the dynamics of a philanthropic family, a family that extends far beyond the members of the foundation board.

Qualities expected of leaders—intelligence, boldness, and risk tolerance, to name a few, must be more nuanced in a family philanthropy. Intuition, patience, and the instincts of a servant leader are perhaps even more likely indicators of effectiveness. While a healthy ego is important, it is vital that ego manifests itself as much in its humility as in its confidence. And, in a significant departure from the hiring processes of many other types of CEOs, there is often far less clarity about performance expectations and assessment.

The family foundation CEO is more likely to share fundamental values and feel a deep, personal connection to a donor and family. The result is often mutual affection and a deeply satisfying job situation. Those same bonds can test the professionalism and boundaries of those relationships, yet perhaps explain why family foundation CEOs so often hope to remain in, even retire from, these positions.

Finally, a complex network of stakeholders looks to the family foundation CEO for both strong leadership and accountability: the board, particularly the board chair; a family business or office; the family; committees; other staff; external advisors; grantees and applicants; and, as a public trust, the community at large. The family foundation chief executive not only reports to a board of directors but may be responsible for building that board over generations.

Even as they continue to reveal themselves, the lessons of the National Center for Family Philanthropy's research on family foundation chief executive officers are astonishing. A greater understanding of this demanding position will mean more support for more effective leadership. Hopefully, this research enhances the efforts of CEOs and the CEO's philanthropic partners—their boards, donor families, grantees, and colleagues. Finally and ideally, it adds not only to our understanding but to our appreciation of the qualities, circumstances, and contributions of the men and women who, with great grit and grace, serve as stewards of an extraordinary philanthropic tradition.

The Board Chair Point *of* View:

FIVE THEMES FOR CEO EFFECTIVENESS

BY ALICE C. BUHL

In addition to the point of view of CEOs themselves, the National Center wanted to include the experience and thoughts of veteran board chairs about their CEOs. Accordingly I conducted fourteen lengthy interviews of board chairs. We particularly looked for board chairs who had worked successfully with a CEO over time or chairs who had worked with more than one CEO. The goal was to identify the characteristics board chairs thought defined CEO Effectiveness. Five themes emerged:

1. Learn and grow;
2. Give and earn respect;
3. Understand the family culture and the dynamics of the family;
4. Clarify and negotiate leadership roles; and
5. Master effective communication.

LEARN AND GROW

Board chairs see first-hand and over time the changes taking place in the family, from the aging senior generation to marriages, divorces, birth of new family members, career changes, and health changes within the family. They know that these changes significantly affect the work of the CEOs and realized the ways the CEOs have taken these changes into account. There were many stories of the ways that CEOs adapted to different expectations with new ways of thinking and working.

Board chairs appreciated the fact that their foundations' veteran CEOs were leading very different organizations than those they encountered when they first assumed their positions. Chairs described the many changes in their philanthropic work: larger assets, new strategies, the foundations' evolving roles in their changing communities, and the emergence of new program areas. In addition, younger family members may have different interests or ideas of their roles. Some family members embrace these changes and others resist. CEOs have to learn to be nimble in responding to and initiating change over and over again.

Conversely, some foundations might not have undergone many changes in board composition or leadership, nor in the composition of the staff. The challenge for long term CEOs is to stay fresh and excited about possibilities and at the same time not become too comfortable.

GIVE AND EARN RESPECT

The notion of respect or trust between the chair and the CEO came up in every interview. One board chair, who is also still a CEO of the family's company, put it bluntly: "It works because we are two human beings who respect each other."

My experience as a consultant to many family foundations is that some families don't respect the CEO and some CEOs don't respect the family. Neither situation is healthy and usually leads to tension and unhappiness for both the CEO and the family.

One board chair asked an even deeper question: "Does the relationship between the family board and the chief staff person mirror how power and privilege develop and play out in the foundation and in the foundation's work in the community?"

UNDERSTAND THE FAMILY CULTURE AND THE DYNAMICS OF THE FAMILY

What does it mean to understand the family culture and dynamics? These are a few of the ways board chairs described this ability:

- She represents the family well.
- We were philosophically aligned going in. She had sympathy and appreciation for the way the family thinks and feels.
- The president is very good at encouraging and allowing each of the board members to play the role they want.
- She is pretty good at reaching out to individuals on the board when she senses there's a need to talk about something.

A number of board chairs emphasized that CEOs should stay out of the "family stuff." Several said it was their job as board chair to help resolve family issues. One said, "The ED runs the foundation; I run the family relations." Another said that she sometimes had to tell the CEO, "This is a family issue."

One of the challenges for CEOs is engaging appropriately in the board governance issues that are intertwined with the family. This involves, at a minimum, thinking about the next generation, bringing on new family members, and seeking new trustees. Board chairs agreed that they needed to work closely with CEOs to make sure these issues had appropriate leadership.

CLARIFY AND NEGOTIATE LEADERSHIP ROLES

Families are masterful at making assumptions and avoiding clarifying discussions. Some families or some family members might want one kind of leader, others a very different kind of leader. And they don't always come to a common understanding. A few suggestions for CEOs from board chairs:

- Stay in close contact with your constituencies; make sure you know what they want and learn about their interests. Help them figure out what they want to do.
- Have regular discussions with the family about how philanthropy affects us and our experience of it.
- Keep your ego in check and get along with people who have strong ideas.
- It works because expectations are spelled out and understood. The family knows what to expect of the CEO; the CEO knows how things operate.

One board chair recognized the frustration the President has when she gets enthused about ideas and possibilities but is way ahead of the board. It takes great skill to lead yet not advance change as quickly as you might wish.

A non family board chair commented about a potentially fatal disconnect between the CEO and family, "Family members say they want a leader. I question how much they really want innovative ideas, or out of the box thinking. There's an insider aspect to a family foundation. Don't lead us too much beyond what we want. Staffing and leading must be done in very subtle ways and not be too aggressive."

MASTER THE ART OF EFFECTIVE COMMUNICATION

In families a history of communication styles and patterns may have existed for years. The CEO needs to both understand those patterns and in many cases develop different and more effective patterns for the foundation's work. Suggestions from Board chairs include:

- Have a lot of individual communication with board members; know your enemies even better than your friends.
- Don't write more memos. Develop individual relationships; it builds trust when people have been consulted.
- Have an open door policy and open, honest and frank discussions.
- Sit down and talk when we disagree and look for the reasons why.
- Candor; ability to say what needs to be said to solve a problem or take any action that is needed.
- Master mediation and active listening.
- Stay in touch.

Several board chairs spoke of consciously developing communication skills within the family and the foundation. Families that still have active family businesses or offices have often been intentional about getting help to develop communications skills.

One of the toughest tasks can be to speak truth to power. Board chairs appreciated the fact that their CEOs play an important role in upholding ethical standards. They valued and expected the CEO voice on these issues but also understood that CEOs could be placed in very difficult positions.

I am grateful to these board chairs who were willing to share their experience. They understood their responsibility to provide leadership and work with CEOs to help them be successful in leading the foundation. They realized the importance of what a CEO and staff bring to the family. They were grateful and excited about what their foundations had accomplished with the help of very talented CEOs. Several were sad about CEOs who were soon to retire but hopeful that subsequent CEOs would hold strong values, as well as bring their experience and ability to work with the family.

Alice Buhl is a founder of the National Center for Family Philanthropy, a founding member of the Board of Directors, and currently serves as the National Center's Senior Fellow. She is a Senior Consultant of Lansberg Gersick & Associates in New Haven, Connecticut.

The Online Survey:

A SUMMARY OF FINDINGS

Excerpted and adapted from The Role of the Family Foundation CEO, Project of the National Center for Family Philanthropy Research Results—September 2011

To inform the project on "The Role of the Family Foundation Chief Executive Officer," the National Center for Family Philanthropy (NCFP) commissioned the Community Research Institute at the Dorothy A. Johnson Center on Philanthropy to conduct three studies: a literature review, a field scan of existing programs and resources, and an online survey of family foundation CEOs. These studies sought to provide more information about the professional backgrounds and orientations of family foundation CEOs, how they are recruited and/or mentored, where they go—or might go—for assistance and professional development, and how this relates to their perceived effectiveness in this crucial role. The material served as important background context and as a supplement to the many in-person interviews conducted as part of the National Center's CEO Initiative. More complete coverage of the Johnson Center's work on the National Center's behalf including the literature review, field scan and the CEO survey is available on The Johnson Center website: www.gvsu.edu/jcp/

In this appendix we show some of the key findings from The Johnson Center's online survey of a sample of paid family foundation chief executives. The goal of the survey was to gather primary data from CEOs themselves on the research questions addressed in this project, to collect information about what backgrounds CEOs bring to the job, and some key features of how they engage in the CEO role, especially related to their professional development and assessment.

The survey of current family foundation CEOs gathered primary data from nearly 200 CEOs. The sample was 64 percent female and 91 percent white, and nearly 80 percent said this was their first experience working for a family foundation. The majority of the CEO respondents work for well-established foundations with modest sized endowments and small staffs, making grants totaling less than $5 million per year. They varied considerably in how long they have served in this CEO role.

The survey questionnaire was developed jointly by staff of the Johnson Center and of the National Center for Family Philanthropy. A link to the survey was distributed by NCFP using email lists, newsletters, and other contacts with members. A total of 198 respondents answered at least one question and 169 completed the full survey.

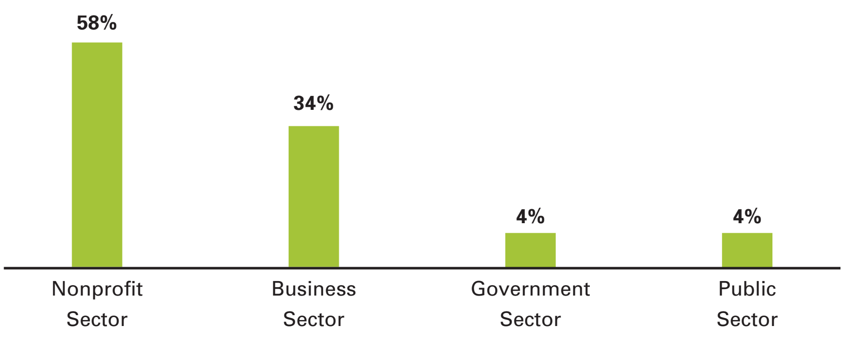
CHARACTERISTICS AND BACKGROUNDS OF CEOS

About three-quarters of the CEO respondents work in the job full-time, and the others are part-time. Only one quarter of the sample are members of the foundation's founding family. Thirty-five percent are voting members of the foundation's board.

Nearly 80 percent of the CEO respondents said that this was their first experience working for a family foundation. Those who had worked with a family foundation before played a variety of previous roles, but the most common were Executive Director, Advisor, and Program Officer.

Figure 1 below shows that the majority of CEOs worked in the nonprofit sector (which would include foundations) before coming to their current position.

FIGURE 1: How would you describe your primary field of practice before coming to the foundation?



When asked how they came to get this job as CEO, one-third of the respondents said they either had previous personal contact with the family, or were a member of the family themselves. Another 13 percent got the job through professional contacts with the family, and nearly a quarter said they had personal or professional contact with foundation staff or other board members. Fifteen percent were selected through a public application process and 7 percent were recommended or referred, although only two CEOs were recruited by "head hunters."

CHARACTERISTICS OF FAMILY FOUNDATIONS SERVED

Figures 2 through 5 below provide information about the family foundations served by this sample of CEOs.

FIGURE 2: How long has the foundation existed?

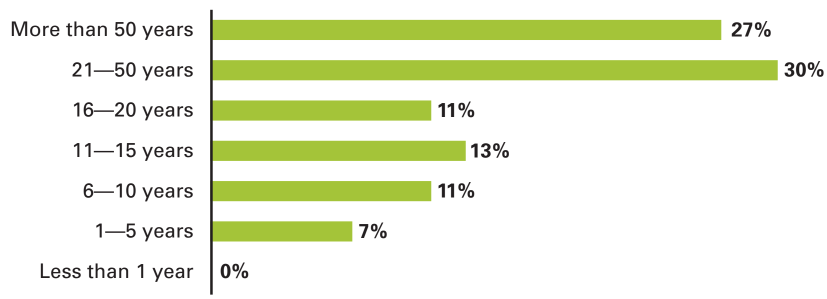


FIGURE 3: What is the asset size of the foundation?

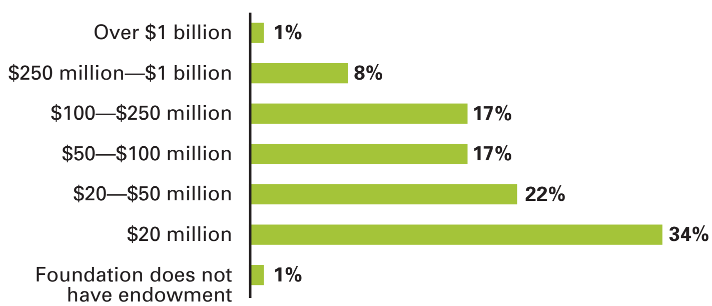


FIGURE 4: How many staff currently work for the foundation?

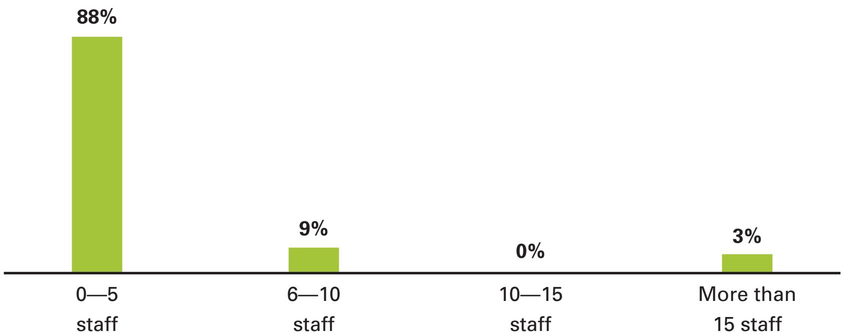
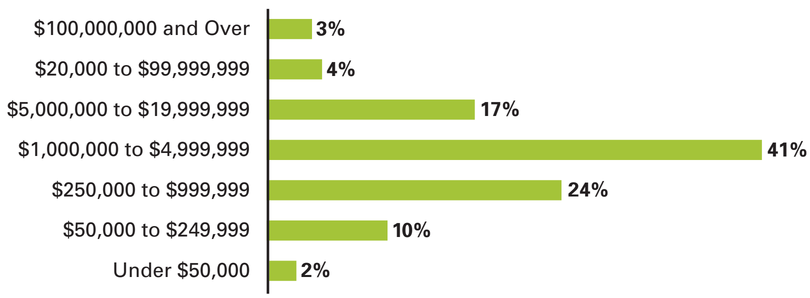


FIGURE 5: How much in total grants did your foundation award during the last fiscal year?



As these figures show, the majority of the CEO respondents work for well-established foundations with modest sized endowments, making grants totaling less than $5 million per year. The majority also oversee very small staffs, which is common in the family foundation field. However, there are some CEOs who run larger foundations, and a few who run relatively new foundations, mostly likely serving as the first chief executive of that institution. The analysis below examines whether the professional development practices differ across these different types of family foundations.

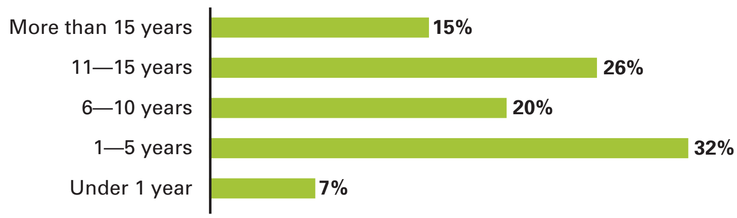
Respondents were also asked if their foundations allowed "discretionary grants" to be designated by the CEO, and if so how much. A bit over 60 percent of CEOs are given this freedom to make their own grants. However, among this group with discretionary power, over half are limited only to grants below $10,000.

The foundations which these CEOs run had an average board size of 7.13, although board size varied from 1 to 18 members. The average number of family members on the board was 5.37 (range from 0-18). Fifty-five percent of the families associated with these foundations also had a family office.

CEO ROLES AND INTERACTIONS WITH FAMILY

Figure 6 below shows that there is considerable variation in how long these CEOs have served in this role, including 7 percent who have served less than a year so far. They were also asked how long they hope to continue leading the foundation, and 38 percent said "until retirement." Only 10 percent said they planned to stay two years or less.

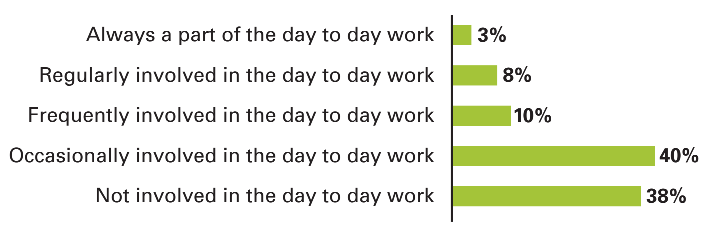
FIGURE 6: How many years have you spent in your current role at the foundation?



Respondents were asked to rank the amount of time they spent, as CEO, on certain key foundation tasks. Overall, "grantmaking activity" and "foundation administration" emerged clearly as the most common activities, with 39 percent and 32 percent of respondents ranking each activity, respectively, as the one that takes up most of their time. "Working with family" was the next highest ranked, followed closely by "community leader." "Program expert" was ranked lowest by far. A number of CEOs also wrote in many other roles they spent some of their time on, such as managing investments, networking/collaborating, and foundation planning and capacity-building.

The CEOs indicated that board members—who, as noted, were predominantly family members—were not that involved in the day to day work of the foundation, as shown in Figure 7. In 78 percent of these family foundations, board members were only occasionally involved, or not involved at all, leaving the CEO and small staff to do the routine work of the institution.

FIGURE 7: How involved are the board members in the day to day foundation work?



Board members were very involved in setting funding priorities for the foundations, however. Most CEOs indicated that their board members were either always involved (54 percent), regularly involved (22 percent), or frequently involved (14 percent) in this aspect of governance.

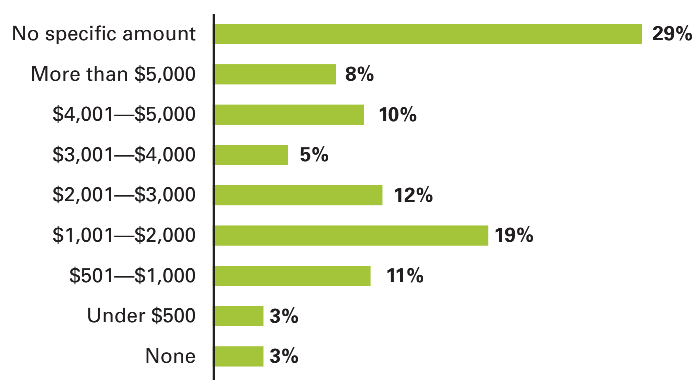
The survey also asked about the involvement of other, non-trustee family members. Only 21 percent of the CEOs said these other family members were always or regularly involved in the foundation in some way, while 40 percent said there was no involvement by other family at all.

CEO PROFESSIONAL DEVELOPMENT AND ASSESSMENT

The survey first asked CEOs if their foundations allocated any money for their professional development, and 91 percent said yes. More detailed crosstab analysis showed that this percent was the same regardless of the background of the CEO; i.e., there was no difference between those who had worked for a family foundation before and those who had not, those who are part of the founding family, and so on. The age of the foundation also did not affect whether they supported their CEO's professional development or not, and neither did the asset or staff size of the foundation.

Figure 8 shows the amount of money allocated each year for CEO professional development. Again, crosstab analysis showed that this amount did not vary across CEOs with different backgrounds. Those with less foundation or nonprofit experience, and fewer years in their current CEO position, for instance, were not given more or less for professional development than those CEOs with extensive foundation backgrounds. The amount did not depend on foundation size either, which is interesting given the expectation that larger foundations would spend more on this.

FIGURE 8: How much is annually allocated for your professional development needs?



There were some interesting variations, however, in which CEOs were given an annual performance review by the foundation. Overall, 62 percent said they received such a review, while the other 38 percent did not. But as Table 2 shows, those CEOs who are members of the founding family are less likely to have annual reviews than those who are not, and this was a statistically significant finding.

TABLE 2

DOES YOUR BOARD CONDUCT AN ANNUAL PERFORMANCE REVIEW OF YOUR WORK?

ARE YOU A MEMBER OF THE FOUNDATION'S FOUNDING FAMILY?	Yes		No		TOTAL	
	#	% of Row	#	% of Row	#	% of Row
Yes	14	36.8	24	63.2	38	100.0
No	87	68.5	40	31.5	127	100.0
TOTAL	101	61.2	64	38.8	165	100.0

(Pearson Chi-Square = 12.349, p<0.001)

Other aspects of CEO background, such as whether they had worked for family foundations or how long they had been CEO, did not matter in this way. However, the size of the foundation did. Lower asset size foundations were significantly less likely to review CEOs annually, while larger foundations were much more likely. Also, foundations with larger staffs were more likely to review than smaller ones. (Note, however, that Pearson Chi-Square measures were only statistically significant for the distributions across asset size.) So, the CEOs most likely to be reviewed are those who oversee larger foundation and who are not members of the founding family.

Inspiring Resources

FAMILY PHILANTHROPY'S MAD HATTER

GARY A. TOBIN

Professionals at family foundations wear many hats—administrator, mediator, confidant and sometimes even family therapist. Here are some helpful hints.

Few professional roles are more complicated—and less defined—than the family foundation professional. The explosion of foundations has greatly expanded the profession, but few in it have formal training. Instead, they may have been lawyers or accountants to the family, academics, business managers, teachers or spiritual leaders. They enter the field through personal relationships, work in the nonprofit world or other serendipitous paths. They are hired to be managers and organizers, sometimes in the role of chief executive officer, sometimes that of chief operating officer. But they quickly find that they have many more roles to play.

Through family foundations, tens of billions of dollars are contributed annually to thousands of philanthropic causes affecting millions of lives. The challenge for the professional is to accomplish the foundation's important business, but to do so while accommodating the needs of a board made up primarily of family members.

Although family foundations are legal entities, they often function around the personalities of individuals. Strategic plans, mission statements, goals and objectives are based on the passions, spiritual and emotional characteristics of the people involved. Rules can be displaced by informal family dynamics. Sometimes family foundations are created as a vehicle to bring a family together. But few subjects are more difficult to discuss, negotiate and remain dispassionate about than money.

FOUR LEVELS OF INVOLVEMENT

The professional must operate on four different levels and be able to cull from all of them as appropriate. The first is emotional. She must be able to connect to various members of the family and other trustees with a sense of safety, affection, caring and concern. Defining and maintaining appropriate boundaries can be challenging when working with a family foundation. On the one hand, the professional becomes almost like a part of the family. On the other hand, professionals may lose trust and credibility if they become too much a part of the family. Given this complex relationship, maintaining the emotional balance is critical.

The second level is intellectual. The professional must provide good ideas, communicate clearly, provide the lay of the land and offer options for foundation governance, management and grantmaking. Simultaneously, operating both within both the realm of emotion and intellect requires sophisticated interpersonal skills.

The third level is ethical/moral. Decisions are made in the context of right and wrong, good and bad, in addition to practical or political realities. The family foundation professional may need to serve as a compass.

The fourth level is spiritual. Naturally, board members—especially founding donors—think about mortality, the meaning of life and how to perform good deeds. Giving is a matter of the soul and the spirit, touching the deepest part of a human being. It can be very difficult for the family foundation professional to communicate on this level, regardless of the words spoken or the subject matter discussed, the spiritual level is a subtext more often than any other.

THE SIX ESSENTIAL QUALITIES OF PROFESSIONALS

The family foundation professional must be:

- **Honest and consistent**. He or she cannot tell one thing to one family member and something else to another. The professional must present all information with complete disclosure.
- **Candid and frank**. He or she must not be afraid to state his or her beliefs. The professional should be a strong moral compass, not a distorted mirror image of trustees' views and feelings.
- **Grounded in a set of values and beliefs**. He or she must know what is and is not important to them, and be aware of when compromise is not an option. The professional has to be willing to say no to a trustee sometimes.
- **Aligned with the family's beliefs and goals.** The professional can educate and lead, but cannot have an agenda that is dissonant with the family's agenda.
- **Willing to utilize outside help**. Sometimes consultants are needed to assess, review, and facilitate. Such help should not be threatening to the professional, even when initiated by a trustee.
- **Simultaneously engaged and objective**. The boundaries between professional roles and personal relationships are often blurred, and often shift. Professionals have to be able to navigate ambiguous interactions.

FAR BEYOND ADMINISTRATION

The family foundation professional has enormous influence, because the family relies on him or her and often views the professional as providing an objective voice. The family foundation professional also has critical input, playing a powerful brokering role among board members because he or she prepares documents, helps with the agenda and provides other key information.

The professional is often a mediator. He or she must listen, digest, offer compromises, and provide mechanisms to resolve differences between family members, all without being—or seeming to be—manipulative. Many family foundation professionals play other roles, too, including:

- **Counselor/advisor.** The professional must be a sounding board for ideas generated by family members and also generate ideas on his or her own. The professional cannot be a "yes" man or woman and still retain board members' respect.
- **Visionary.** The professional should have the ability to think creatively about the future. Brainstorming, imagining and probing are part of the visionary role.
- **Mentor/teacher**. The professional has to be able to teach philanthropy as an endeavor, including the range of possible funding areas for boards with multiple interests and passions. He or she must be intergenerational teacher for the family's children and grandchildren. The professional also must mentor his or her staff, as well as other professionals in the nonprofit world.
- **Ambassador**. The professional must also be an ambassador/statesman, a representative to the world outside the foundation. This includes relating to the general community, the corporate community, and other foundations when building philanthropic partnerships.
- **Scanner/filter.** The professional must protect the trustees from unwanted solicitations and even from unscrupulous or dishonest grant requests. Occasionally, a professional takes the scanner/filter role too seriously, assuming the role of gatekeeper. If access to power goes to the professional's head, he or she may believe his or her responsibility is to make decisions, instead of helping to shape the board's decision-making. The professional should not become a gatekeeper, even when that is the board's preference, because this allows the trustees to become too detached to make sound philanthropic decisions.
- **Therapist**. The professional's role often is to listen, digest and soothe, sometimes for individual family members or sometimes for the family as a whole.
- **Advocate.** Because the professional has his or her own set of core beliefs and values, it is appropriate at times for her to promote a particular program or initiative. If used judiciously, this role strengthens the counselor/advisor function. If this role is handled unwisely, the professional can appear to have too much of a personal agenda.
- **Manager/organizer.** Sometimes the professional plays the role of chief executive officer, or sometimes that of chief operating officer or program officer. How well the foundation is managed is a key indicator for trustees about how well the foundation is doing overall.
- **Technical expert.** The role of the technical expert is critical. The foundation professional must be familiar with tax-exempt/nonprofit laws, rules and regulations. Is the potential grantee a legitimate nonprofit? Is the giving level of the foundation correct? These and other such "nitty-gritty" skills are essential. While the foundation professional may rely on accountants and lawyers both within and outside, the professional must be the interpreter to the family. Moreover, the professional should be able to screen, present, and adapt best practices from the foundation world.

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- **Scapegoat/lightening rod**. This is an appropriate role if it is not used too often. In order to solve a problem, the professional takes the burden of responsibility for it, even when the problem may reside within the family dynamic. This may allow the family to communicate with one another, thereby relieving tension.
- **Truth teller/conscience.** She must bring up unpleasant subjects and hard realities such as declining assets or grants gone wrong. This role is essential, since he or she will need to discuss these things without laying blame or pointing fingers.
- **Friend/confidante**. This role can be difficult to navigate, since being both employee and friend can become very murky. A professional may be privy to information that does not help execute tasks, but is instead a hindrance. Being the repository of inappropriate information can sometimes put the professional in a difficult position, especially when it involves conflict with family members.
- **Protector**. The professional is often called upon to say no gracefully, with enough skill to protect the goodwill and name of the family. This function is more interactive with grantees and the public than the scanner or gatekeeper role.

This combination of roles, which ebb and flow depending on the time and the need, constitutes the skill sets of a family foundation professional. The ability to navigate the world of philanthropy, the world of the family and the world of the community comes with experience that no training program can possibly anticipate.

It is important for the family foundation professional to remember that he or she is involved in an emotional, intellectual and spiritual experience. He or she is doing good work in the midst of complex and difficult relationships. Individuals should neither overestimate their power, nor underestimate their influence in this role.

CREATING A PROFESSION

Foundation work as a distinct profession is still emerging. During the past few decades, the number of foundations has grown exponentially. This phenomenal growth is likely to continue. Few academic programs exist for philanthropic professionals. The term "family foundation" was coined in 1985 by Council on Foundations' members and staff. Members of the profession, particularly those who work in this intricate nexus of family enterprise and philanthropy, needs to discuss, debate and develop a formal code of ethics.

Both pre-service and in-service training for foundation professionals should be expanded. What are the desired skills in this professional realm? What kinds of programs should formally train people to enter the field? What are the benchmarks of success and professional growth? All of those need to be on the table as the field grows and matures.

Most of all, foundation professionals need to develop more and better mechanisms for mutual support. While the field is often rewarding, it is also filled with unique challenges and stresses.

A key question is how to create a network of professional support.

Family foundation professionals are involved in some of the most critical decisions that affect human welfare, fulfilling religious commitment and achieve societal progress. The family foundation professional's role is one of community service and honor. It needs to emerge as a field that is respected as such.

Gary Tobin, the late president of the Institute for Jewish and Community Research, advised family foundations on appropriate roles for their professional staff.

"Family Philanthropy's Mad Hatter" by Gary A. Tobin, Ph.D. Foundation News & Commentary, January/February 2004 www.foundationnews.org

THE TESTS OF A PRINCE

BY IVAN LANSBERG

Future leaders, particularly in family businesses, must jump through four kinds of hoops to earn the respect—and then the support—of stakeholders.

People have been sizing up Brian Roberts, the CEO of the $25 billion American telecommunications giant Comcast, since he was a child. Employees in the company's Philadelphia head office remember him as a kid, hanging onto the coattails of his father, Ralph Roberts, one of Comcast's founders. Brian Roberts may have been interested in the cable industry even as a boy; according to a 2001 Fortune article, he helped punch the coupon books that Comcast mailed to customers! As Brian grew older, anecdotes suggest, Ralph Roberts taught his son the skills he would need to manage the family business. When Brian was still in high school, he regularly accompanied his father to meetings with Comcast's bankers and lawyers. At 15, on the first day of his first summer job, he got a taste of how the company's employees regarded him. As he told Wharton Alumni Magazine in spring 2000, when he showed up for work in a tie and a jacket, his supervisor warned him: "I don't give a goddamn whose son you are. You come to work for me, you're going to work!"

When Brian Roberts graduated with a finance degree from the University of Pennsylvania in 1981, he wanted to join Comcast. However, his father was keen that he work for some other company. The younger Roberts refused; he kept turning down offers until his father reluctantly gave him a job. The finance whiz assumed he would join Comcast's corporate finance group, but Ralph Roberts assigned him to a project in Trenton, New Jersey. Roberts joined Comcast as a trainee, doing everything from stringing cables atop poles to selling cable services door-to-door. But in 1986, when Comcast helped bailout Turner Broadcasting System, Ralph Roberts catapulted his son into the senior management ranks by nominating him to TBS's board. Four years later, Ralph Roberts appointed himself Comcast's chairperson and made his 31-year-old son the company's president. Since then, Brian Roberts has earned a reputation for being an aggressive deal maker. In 2002, when Comcast acquired AT&T Broadband, investors criticized him for taking on $25 billion in debt in a weak economy. When the two companies finished integrating their operations, however, Comcast's profit margins rose, and, in 2003, Institutional Investor magazine declared Roberts one of America's best CEOs. The next year, an abortive bid to take over the Walt Disney Company rekindled perceptions that he was overreaching himself. Although Roberts redeemed himself in 2005 by allying with Sony to take over MGM Studios, in some ways the jury is still out on the "young" Mr. Roberts. Like celebrity children, would-be leaders of family enterprises are in the public eye literally from the time they are born. As a scion moves to center stage, stakeholders dissect his or her intellectual, physical, and emotional capacity at every turn. Anxious to know whether the next-generation leader will help them fulfill their aspirations and protect them from trouble, stakeholders try to form opinions about the individual's capabilities and trustworthiness as he or she rises to the top. They analyze issues such as the person's values, vision, competence, and interpersonal skills, and at the same time,

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each constituency tries to learn how the possible successor will respond to its specific needs. Stakeholders often influence the choice of CEO, and in return for their support, they expect the new leader to meet their demands. Yet my research suggests that corporate scions usually ignore or greatly underestimate stakeholders. They don't realize that, particularly after they are formally anointed as CEOs, they must establish their credibility with and authority over these spheres of influence. Most successors of family businesses, having grown up in fishbowls, take stakeholders for granted-and are shocked if some turn against them. When that happens, leaders often have to step down prematurely. For example, according to media reports, Krister Ahlstrom, former chairperson of Finland's Ahlstrom Corporation, and Thomas Pritzker, chairperson of Global Hyatt Corporation, ran into trouble because they misread their families. Others—such as Motorola's Christopher B. Galvin, Seagram's Edgar Bronfrnan, Jr., and Ford's William Clay Ford, Jr.—had to step down as CEOs because they were unable to meet shareholders' expectations. New leaders of family businesses influence stakeholders not because they've earned that right but because they or their families possess large equity stakes, enjoy the support of incumbent CEOs, or control organizational resources and rewards. However, they can't sustain their leadership through raw power; stakeholders must also accept that leaders have the right to influence them. Followers grant leaders the authority to lead—which the latter tend to forget. The idea that leaders' authority emanates from their followers isn't new; sociologists such as Max Weber and Georg Simmel pointed that out in the last century.

Thus, the greatest challenge any newly anointed CEO faces is turning stakeholders into followers. For the inheritor of a family business, the challenge is particularly thorny. He or she must cope with family members, especially siblings and cousins whose support may be vital to control the enterprise, as well as manage several other constituencies—such as directors and senior executives; bankers and suppliers; and, from time to time, stock analysts, regulatory agencies, institutional investors, and trade unions-that may not be convinced that the successor has earned the right to lead the company. These stakeholder groups have different, even contradictory priorities, and they usually make their judgments in silos. Still, the fate of a CEO depends on how all of them answer the same question: Are we in good hands? Different stakeholders find answers to that question in remarkably similar ways. For 25 years, I have worked with business families during times of transition. I have observed the manner in which families anoint successors and how these inheritors take charge. In many cases, as a consultant, I have helped stabilize new regimes. My experience suggests that stakeholders form opinions about leaders through an inquiry process I call iterative testing. Through this process, stakeholders gather data, analyze information, and form conclusions about potential leaders long before it is clear that they will ascend to the top job. The success of a CEO depends on his or her ability to understand, accept, and manage the iterative testing process. All too often, anointed leaders are surprised and hurt by stakeholders' need to keep questioning whether they are fit for the top job and to test their vision, values, motivations, and skills. After working hard to climb the corporate hierarchy, successors are shocked that they have to learn a new set of skills for winning the hearts and minds of a wide array of stakeholders. The more entitled successors feel—the more they look upon their positions as theirs by right—the more humiliated they are by stakeholders' doubts. Smart successors, in contrast, understand stakeholders' need to know them better, and they engage proactively with the process. For, as Machiavelli wrote in *The Prince*, those who become "princes by good fortune do so with

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little exertion on their own part, but subsequently, they maintain their position only through considerable exertion" while those "who become rulers by prowess acquire their principalities with difficulty but hold them with ease!"

WHAT IS ITERATIVE TESTING?

From a psychological standpoint, iterative testing is the way followers "write" a leader's story in their minds. As leadership expert Howard Gardner wrote in his 1995 book, *Leading Minds: An Anatomy of Leadership*, such narratives are how followers gather, arrange, and store information about their leaders. The stories partly determine the degree to which stakeholders are willing to subordinate themselves to a leader's influence. The testing process is not a neatly organized sequence of objective challenges, like the Twelve Labors of Hercules, that aspirants can tackle to establish their credibility. Stakeholders' perceptions influence the process, so it is subject to the psychological biases and political dynamics that characterize all human systems. I use the word "tests" because that's how stakeholders conceive of the trials that leaders must go through to earn their trust and respect.

Running the Gauntlet in Nonfamily Companies

Organizations that aren't controlled by families spend large amounts of time and money creating processes to select and train would-be leaders. In these companies, executives are supposed to move up the ladder only if they display the capabilities, experience, and determination to lead. However, merit usually lies in the eye of the beholder. Nepotism and favoritism aren't limited to family businesses; many CEOs have used their social networks to rise through the hierarchy. Circumstances thrust others into power; for instance, corporate restructurings sometimes propel people who happen to be at the right place and time into leadership roles. Organizations often appoint outsiders, whom stakeholders know little about, as CEOs. Stakeholders in nonfamily organizations therefore put their leaders through the iterative testing process, and those leaders' responses determine their fates.

Still, there are differences in the way the tests play out in family and nonfamily organizations. First, stakeholders in nonfamily enterprises tend to pay less attention to qualifying tests; they assume that CEOs wouldn't have gotten that far if they didn't have the right education, skills, and experience. Nonfamily organizations test those who aspire to top roles with mechanisms such as formal interviews by boards of directors; career paths with regular performance assessments; and market-determined compensation monitored by the board of directors. By contrast, being a member of the family is a handicap for successors in family businesses, since the assumption is that they got to where they are because of family connections. In these companies, stakeholders place a premium on qualifying tests. Second, family successors often feel personally affronted at the first sign of stakeholder testing. By contrast, in nonfamily enterprises, leaders have been tested several times before they get to the top and, therefore, are likely to have developed the skills and ego to effectively handle iterative testing. Finally, in family enterprises, leaders may be harder to remove because they own or represent those with equity stakes. Where the exit barrier is higher, people are more likely to rationalize the presence of an inadequate leader. In a nonfamily business, the higher likelihood that stakeholders can remove the leader and install someone new increases possible resistance to the successor. If iterative testing reveals a lot of discontent with the successor, stakeholders will band together to remove him or her. In a family business, stakeholders' choices often boil down to shutting up or shifting out.

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My research has focused on family businesses, but stakeholders of nonfamily enterprises put their leaders through the same tests. The testing process is particularly rigorous in those companies when the board makes a surprising choice, when someone is brought in from outside the company, or when stakeholders are unable to form a consensus about the new leader. Exactly when the testing process starts and how much emphasis stakeholders place on the tests are different in family and nonfamily enterprises (see the sidebar "Running the Gauntlet in Nonfamily Companies"), but iterative testing characterizes the formative period of every leader's rule. It serves to reassure people that their leaders have the physical, intellectual, and emotional abilities to withstand the pressures of office. Stakeholders light fires under an aspiring leader to forge his or her mettle.

The intensity of iterative testing isn't constant. Leaders would hardly be able to function if they were under relentless scrutiny by stakeholders all the time. Iterative testing operates in cycles that start early in a would be leader's career, and it comes to a peak once the honeymoon period is over. From there on, the intensity of the process depends on the leader's perceived effectiveness and on circumstances. For example, if the conditions under which the leader took office change radically, stakeholders, feeling the need to reassess whether they are in good hands, will set off a fresh wave of evaluation.

Iterative testing also allows stakeholders to explore whether there is a fit between what they need from the leader and his or her capabilities. No single leadership style fits all circumstances. Autocratic leaders, ideal for managing crises, may be disastrous when conditions call for shared decision making. Followers usually have a good sense of what they need from a leader. Of course, circumstances color the lenses through which they conduct the assessment. For instance, during a crisis, stakeholders will be all too willing to suspend their doubts about the leader; it is hard to question the captain's skills when the ship is sinking and you're busy trying to survive. In stable times, stakeholders will be emboldened to ask if the leader is meeting their needs such as financial security and self-actualization.

The less information stakeholders have about a successor, the more intense the iterative testing process will be. Some business families promote young inheritors to positions of influence without notice or lengthy apprenticeships; these heirs have, as William Shakespeare wrote in *Twelfth Night*, "greatness thrust upon them." The inheritor often has to go about establishing credibility in the long shadow of an incumbent to whom everyone attributes heroic stature. Moreover, the incumbent typically maintains an active presence in the company even as the unfortunate successor tries to take charge. This leads to considerable uncertainty and fuels iterative testing by stakeholders desperate to learn about the new boss.

THE FOUR KINDS OF TESTS

The process of iterative testing may be messy and driven by circumstance, but it isn't random. Over the years, I've been able to discern four distinct kinds of tests.

Qualifying tests are assessments based on the formal criteria that society in general, and companies in particular, use to judge executives' capabilities. The criteria include formal education, work experience, military and community service, and awards that executives can cite as evidence of professional development. Equally important are on-the-job achievements such as excellent performance in demanding positions, successful completion of challenging projects, and international and board experience. By gaining the professional accolades that the business world values, successors show that they have earned the approval of impartial judges. Indeed, a good record in an organization where the family name doesn't matter can allay worries about a successor's suitability for the job.

Self-imposed tests are expectations that leaders themselves set and against which they expect stakeholders to measure their performance. For example, when inheritors present their organizational vision, strategic direction, or business plan, they define the parameters on which they expect stakeholders to evaluate their effectiveness. Stakeholders' perceptions about the leader's ability to deliver contribute to establishing the leader's credibility. Similarly, when CEOs draw up norms about punctuality, what constitutes harassment, and how conflicts of interest should be handled, stakeholders judge their sincerity by checking whether leaders are walking the talk.

Circumstantial tests are unplanned challenges that leaders must face. In such situations, stakeholders can observe the leader as he or she copes with the unexpected. A circumstantial test might be negotiating a labor dispute, resolving a crisis brought on by the head of the family's sudden death, or tackling a snowballing business challenge. For instance, the credibility of August A. Busch IV, Anheuser-Busch's CEO since September 2006, rides on whether he'll be able to rebuild the flagship Budweiser brand, whose loss of market share is fast turning into a crisis. Crises often propel aspiring leaders to center stage, presenting them with opportunities to demonstrate their abilities.

Political tests are challenges from rivals who want to enhance their own influence, often by undermining the leader. Blocking the implementation of the leader's plans, creating a coalition to counter his or her power base, spreading a malicious rumor-all these serve, in stakeholders' eyes, to test the leader's capacity to navigate the realpolitik of organizational and family life. For instance, News Corp's chairperson, Rupert Murdoch, appointed his son James Murdoch as CEO of BSkyB, the group's satellite television operations, in 2003 over the objections of institutional investors. James Murdoch faces a stiff political challenge; stakeholders are waiting to see if he is as good a corporate warrior as his father. If they aren't convinced, they may well thwart his rise to the top.

The judgment of all the stakeholders, across these four categories of tests, forms the basis for a leader's authority. Opinions will vary because people and groups will have different types of information. Some, such as family members and close colleagues, will have witnessed firsthand the successor's abilities and follies. Those who are more distant must rely on formal appearances and secondhand information, including hearsay and gossip, which distorts their judgment.

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OF A PRINCE

MANAGING ITERATIVE TESTING

Successors who provide the evidence that stakeholders need to make judgments about their fitness for office stand a better chance of getting to the top and staying there. Sure, by engaging with the testing process, they increase the risk of failing, but there is no other way they can win followers. Unfortunately, incumbents in family businesses often try to shelter heirs, sometimes by giving them ambiguous positions such as "assistant to the CEO!" This erodes young leaders' attempts to earn credibility and robs them of the opportunity to demonstrate what they have to offer the enterprise. Incumbents would do better to work with anointed heirs to tackle the four types of tests systematically.

Tackling qualifying tests. Stakeholders rely on qualifying tests to shape their expectations of a new leader before they have had much direct contact with him or her. How the leader stacks up provides a context in which company directors, senior executives, and family members can gauge the leader's capacity during the first days in office. Stakeholders will be more forgiving of a leader's early on-the- job blunders if he or she has a good business education, a track record of excellence, experience working outside the family business, and a history of doing well in demanding jobs. They will attribute the leader's mistakes to the circumstances he or she faced when taking charge; they will ascribe successes to the leader.

Take the case of Peter (I have used pseudonyms in these examples), whose father built one of the largest construction companies in the UK. When Peter graduated from engineering school in the 1990s, his father called in his chief engineer and asked him where the company's most difficult project was. The chief told him about a pipeline the firm was laying across the

How Stakeholders Respond to Flawed Leaders

The process of iterative testing will eventually expose every new leader's flaws. When the successor's deficiencies become evident to stakeholders, they take one of the following actions. Successors should be aware of the warning signals.

- Protect and coach the new leader. Loyal stakeholders may be willing to throw their lot in with the new leader-whatever the consequences. This is a particularly difficult undertaking for nonfamily executives who must bet their reputations to buttress a successor in trouble. The problem is, if the successor's performance doesn't improve, this is tantamount to putting personal loyalty above the interests of the enterprise.
- Blow the whistle to make the successor's deficiencies obvious to those with the power to take corrective action. If the successor is a family member, this is a risky strategy. However, courageous shareholders, directors, and senior executives who acknowledge that a leader must go have saved many an enterprise.
- Hide and wait for the leader to fall on his or her own. Stakeholders can ride the waves, hoping that the organizational immune system through directors' and shareholders' intolerance of poor leadership-will correct the problem. The downside is that if the leader doesn't go quickly, the business might fold first.
- Exit the company. When executives feel they cannot change a failing leader, they may have to seek employment elsewhere. For family shareholders, getting out is often complicated, particularly when their shares are held in trusts or when shareholder agreements restrict their sale. The family will regard even the announcement of an intention to sell as disloyalty. Nonetheless, legal battles often result because family members are unwilling to submit to poor leadership.

Successors, eager to demonstrate they have the right stuff, often promise more than they can achieve. They must learn to walk the line between the inspiring and the deliverable.

Saudi desert; that sounded to the father like the right entry job for his son. Soon, Peter was on his way to Saudi Arabia, where he worked as a junior engineer for two years. Switching climates, he next worked on a pipeline project in northern Alberta, Canada, for a year. His father then insisted that if Peter wanted to join the company's executive ranks, he would have to get a postgraduate degree from a top American university. Peter enrolled at MIT's Sloan School, where he completed a dual engineering and management master's degree in three years.

When Peter returned home, his father asked him to lead the construction of an underground mass-transit system in a major European city. Peter served as the project engineer, responsible for overseeing every aspect of the effort, including negotiating with government officials, hiring crews, and ensuring that the project was completed on time and on budget. By the time his father decided to retire, stakeholders were well aware of Peter's capabilities. An external director told me: "Even if he hadn't been his father's son, the board would be nuts not to consider Peter for the top job." Some of Peter's shortcomings-he lacked the charisma and interpersonal skills of his father-were brushed aside. Peter took over as CEO, and a few years later, he took the company public, which would have been impossible had he not enjoyed the support of his stakeholders. It's necessary to underline the importance of qualifying tests because business families differ in the value they assign to formal education as a path for leadership. Some families have a tradition of educational achievement and place considerable pressure on children to excel at school. Others have developed cultures of self-reliance; they see on-the-job apprenticeships as a more effective road to success. In my experience, scions' willingness to undertake a rigorous education has always been a powerful antidote to stakeholders' concerns about privilege and patronage.

If successors enter the family business upon leaving college, though, they usually don't receive the kind of impartial feedback they would get elsewhere. It becomes difficult for them to see when they need to take corrective action, and they are set up to confirm everyone's worst fears. Over time, they can become impervious to the consequences of their behavior and isolated from the organizations they lead. Choosing an external path conveys to stakeholders that the successor isn't afraid of being held accountable to objective standards. It also signals that the young inheritor has career options, making the decision to join the family business a choice rather than a necessity.

THE TESTS
OF A PRINCE

How Fit Are You to Lead?

This self-diagnostic will help successors, particularly in family businesses, assess their suitability for the top job. By answering yes or no to the following questions, they can spot their strong points and weaknesses in stakeholders' eyes, and take corrective action where necessary. If you find yourself saying mostly nay and don't want to do anything about it, you would be wise to abandon your pursuit of the top job.

Qualifying Criteria	**Yes**	**No**
Is there a good fit between what I studied and the leadership role?		
Have I worked outside the family business and shown that I can succeed?		
Have I taken on jobs and projects whose results can be objectively measured?		
Am I aware of the deficiencies in my training and what I should do about them?		
Do my behavior and demeanor serve to defuse concerns about nepotism?		
Self-Imposed Standards		
Are the expectations I'm setting achievable?		
Have I taken personal responsibility for the gaps between what I promised and delivered?		
Have I picked a talented top management team?		
Have I treated family members and friends impartially?		
Have I assembled a first-rate board of directors?		
Circumstantial Measures		
Am I willing to take on difficult challenges and crises to demonstrate my ability?		
Have I thought through my strategy for success? Do I have the resources? Can I deliver results in the available time?		
Do I know how to motivate others to collaborate with me?		
Am I willing to take responsibility for what goes badly and share the glory for what goes well?		
Am I willing to invest the extra effort necessary to succeed?		
Political Parameters		
Can I identify everyone who is threatened by my appointment and my leadership choices?		
Am I aware of what my rivals for the job say and do to undermine me?		
Do I ensure that information flowing to stakeholders is not distorted?		
Would stakeholders regard the way I allocate rewards and punishments as fair?		
Am I willing to place the company's interests above everything else, even if that means disappointing my family?		

Recognizing the importance of qualifying tests, some family businesses have created career-planning committees that comprise the CEO, the human resource head, an independent director, an external career coach, and, occasionally, a professional from an executive search firm. In coordination with the board of directors, the family council, and the executive team, such committees develop policies that regulate family members' entry into and exit from the organization. Through the committee, key stakeholders can manage and support each family member's career development and protect both the family's aspirations and the integrity of the CEO-selection process. Doing well on qualifying tests is neither necessary nor sufficient for success. Several legendary scions, such as IBM's Thomas Watson, Jr., who needed six years and three schools to get through high school, emerged as great corporate leaders despite less-than-stellar educational records. And, many CEOs have done brilliantly at school before plunging the family business into bankruptcy. So why should successors bother with the qualifying tests if they offer no guarantees? Because when there is no reliable evidence of a leader's prowess, there is more uncertainty about his or her fitness for office. This triggers intensive scrutiny from stakeholders and makes the successor's early tenure more trying-even unbearable.

Delivering on self-imposed tests. Stakeholders constantly monitor whether a new leader's behavior corresponds to the messages and signals he or she is sending out. It's tempting for new leaders, eager to demonstrate they have the right stuff, to promise more than they can achieve. Successors must therefore learn to walk the line between the inspiring and the deliverable. Almost all failed successions I've studied involved an ambitious new leader laying out a lofty plan without considering the viability of his or her promises or the risks to the enterprise.

Smart successors realize that predictability is essential for earning stakeholders' trust, and initially they search for growth strategies that will deliver results without being too risky. They underpromise but overdeliver, gradually earning the confidence and respect of key constituencies. The riskier the strategy a successor pursues, the more important it becomes to recruit stakeholders' support. Inexperienced successors often work hard at selling the upside of their initiatives without conveying the risks they may pose. The moment they start underperforming, they lose stakeholders' confidence. At one Latin American company I studied in early 2000, the founder's eldest son took charge of the $500 million enterprise just when the country's economy was falling apart. Instead of battening down the hatches, the successor pursued growth, promising quick results to the board, the family, and executives. After just two disastrous years, the family replaced him with his younger sister.

In accepting her nomination, the new leader quoted Churchill to the board and the family: "I have nothing to offer but blood, toil, tears, and sweat." She was quick to announce a freeze in salaries, starting with her own, and scrapped her brother's plans to build a lavish headquarters building. She set modest but achievable objectives and gained stakeholders' trust by consistently delivering the results she promised. Six years into her tenure, the company has almost doubled in size, and she has called on her hard-earned credibility to get stakeholders to back her as she

To neutralize challenges to their authority, effective successors develop a vision and find ways to connect it to stakeholders' needs.

takes on new challenges. That's important too; if successors don't create an inspiring agenda, stakeholders will reject them as complacent caretakers, incapable of lifting the family enterprise to new heights.

One of the first self-created hurdles leaders face is assembling their top teams. Successors who are insecure about their capabilities shy away from executives with talent superior to their own. They put together a cadre of adulating subordinates and relatives, who feed them information they want to hear. Smart leaders pick seasoned collaborators who challenge their thinking and complement their deficiencies. They choose executives who are unafraid to tell them the truth-however painful it may be. This discipline is particularly important for heirs to family businesses, as they are less likely than other leaders to hear unvarnished facts from those around them. What's more, effective successors openly acknowledge the need for control mechanisms to measure their performance. For example, they seek the development of effective boards. They recruit top-notch independent directors, establish rigorous selection criteria for family directors, professionalize the board's processes, and encourage transparency in reporting. They also keep shareholders informed and treat dividends as a reward that shareholders have the right to expect for the risks they bear.

Responding to circumstantial tests. An effective performance under the stress of a crisis can get stakeholders to think that the new leader, rather than contextual factors, turned things around; this is how followers "write" narratives about leaders. Tackling the unexpected requires a willingness to take risks and to take charge. Instead of projecting a sense of responsibility and control during a crisis, however, successors often hide behind seasoned executives, who then reap all the credit. When an enterprise is under fire, the successor must move to center stage. Stakeholders need to hear the leader's diagnosis and plans for getting out of trouble. They evaluate the inheritor's capacity to inspire hope without denying the challenges facing the organization. A crisis can also reveal whether the new leader can rally others to combat the problem. The history of every family company that survived for generations tells us of heroic feats at decisive moments that consolidated the authority of untested successors-be it Katharine Graham's taking charge of the *Washington Post* when her husband died in 1963 or Arthur Ochs "Punch" Sulzberger's publishing the *Pentagon Papers* in the *New York Times* in 1971. I'm not arguing for recklessness. The stakes that surround circumstantial tests are high; if successors fail, regaining credibility is almost impossible. Insofar as they have a choice, successors should pick their battles carefully. Consider the case of three cousins who aspired to lead a well-known Canadian manufacturing company their grandfather had set up. The board decided to create an Office of the President and make them copresidents, because all three were well qualified and had complementary talents. Privately, the directors also worried that choosing one over the others would set off a destructive conflict among the three branches of the family. David, 35, the youngest copresident, had joined the company after completing his MBA at Harvard Business School and had worked in a number of staff positions before being named to the top team. Although they liked David, directors and executives thought he was green. "David is very smart and capable. I just wish he would stop offering theoretical solutions," one senior executive told me.

Shortly after the cousins took charge, the company's troubled European division took a turn for the worse. The task of turning it around was shunned by his cousins, but David, sensing the board's equivocal feelings about his abilities, offered to handle the crisis. He moved his young family to Frankfurt and spent the next four years restructuring the European business. He brought costs under control by streamlining the manufacturing process, downsizing the organization through negotiations with trade unions, and renegotiating debt payments. By this time, the board was beginning to realize that the cousin consortium wasn't working. Communication had broken down, decision making was slow, and despite the European division's turnaround, the company's performance was faltering. The board eliminated "the Office" and named David the company's CEO. He had provided ample evidence of his leadership capabilities, prompting one of his cousins to say: "There's no doubt that he has earned our respect:' It's unlikely David would have gotten the nod if he hadn't taken the risk of moving to Europe.

Circumstantial tests often make stakeholders aware of leaders' magnanimity. Inheritors can win their approval by taking responsibility for what has gone badly and sharing the glory for what has worked. Interestingly, young CEOs tend to recognize the contributions of senior executives, but they find it harder to thank family shareholders, particularly those who aren't involved in management. These shareholders are often the company's biggest investors and so bear the greatest risks. If leaders acknowledge the backing of family shareholders, they will earn this critical constituency's loyalty.

Meeting political tests. It is impossible for anyone to exercise leadership without at some stage disappointing, frustrating, and angering certain stakeholder groups. Many successors are naive about the potential for backlash. The nature of political processes—the wheeling and dealing of influence as individuals and groups compete for control of organizational resources—often escapes them. Many have had a privileged upbringing, which leads them to overly trust close relatives, colleagues, and advisers. When the first act of defiance or disloyalty takes place, it catches inexperienced successors off guard. They want everyone to like them, but they will lose respect in stakeholders' eyes if they don't confront those who break norms or disregard the direction they have set.

For example, a few months after James took over as the CEO of a Fortune 1,000 company, a faulty product required a costly and highly publicized recall. The crisis had been long in the making. Lax oversight by the COO and the divisional head, despite repeated warnings from line managers, had resulted in a product that put customers' lives at risk. Under pressure from his family, the board, and investors, James fired the COO-a person he considered his friend and mentor. It was an agonizing decision.

However, after the COO left, James learned that his colleague had repeatedly tried to undermine his promotion. Asked about James during an interview, for instance, the COO had responded: "I like Jim but, I got to tell you, he wouldn't be CEO if he hadn't been a family member. I met with the head of the nominating committee to tell him that Jim was the wrong choice for this business ..." A number of directors and family members regarded the fact that James learned about this only after the COO left as naivete. "This is a wakeup call about the authority issues every leader faces. Let's hope Jim learns some street smarts from this" the company's chairperson told me.

To neutralize challenges to their authority, effective successors develop a vision for the enterprise and find ways to connect it to stakeholders' wants and needs. They, in effect, become the weavers of a shared dream that represents a synthesis of stakeholders' aspirations. They also manage to imbue enough of their own identity into the dream to claim it as their own. Given the contradictory demands made on leaders, their vision must be clear and engaging so that it provides meaningful direction; it must also be broad enough to offer hope to stakeholders that they will realize their diverse and contradictory aspirations. Along the way, leaders must learn to negotiate the system, picking their battles with care and using their political capital to serve the interests of stakeholders and the company.

Does this sound like an impossible job? In some respects, it is. Yet many successors succeed at these tests and lead their companies to great heights. They often do so by selecting a team of trusted advisers who question their priorities, initiatives, and strategies in private but support them when they become lightning rods for stakeholders' frustrations. The "kitchen cabinet" helps young leaders grow into their roles, and as they do so, stakeholders stop testing them intensely.

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The response of successors to the iterative testing process plays a large role in determining if stakeholders will throw support behind them. By acknowledging they have weaknesses, heirs to the family business demonstrate maturity and a willingness to learn. Those who deny their deficiencies further undermine their credibility. In fact, many inheritors fail to win stakeholders' respect because they compensate for their inadequacies with arrogance and opulence. New leaders would do well to remember that, as the fairy tale of the emperor's new clothes tells us, followers' perceptions are the subjective basis on which their credibility rests.

THE SPIRIT OF PHILANTHROPY
AND THE SOUL OF THOSE WHO MANAGE IT

BY PAUL YLVISAKER

We are stewards not merely of money, but of a tradition—a tradition [that] is still evolving. And that makes us accountable not only for what we preserve but for what we create.

Stewardship is a term that is healthily disciplining, but it is also too passive; it does remind us of the specific trusts we have accepted, but it does not suggest the creative roles we inescapably play. We are stewards not merely of money, but of a tradition -a tradition [that] is still evolving. And that makes us accountable not only for what we preserve but for what we create.

I'd like to brood with you over both the custodial and the creative responsibilities of philanthropic managers. I'll be making some generalizations that suffer all the liabilities of half-truths. Fair warning a Ia Robert Wood, who once introduced me with the mischievous alert: "I want you to listen carefully to Paul Ylvisaker. He's always persuasive but not always right." Still, how else than by generalizing do we human beings communicate insights-or keep an audience awake?

Who are the managers of philanthropy? To start with, the seven or eight thousand who don't own the money but make their living giving it away (the "philanthropoids"), plus another nearly equal number of trustees who manage organized philanthropy without benefit—some would say, without burden—of paid staff, but essentially all responsible for discharging the fiduciary responsibilities involved in running foundations.

Even at that, we're talking about a meager fraction of Americans: only six out of 100,000 who are trustees of foundations, and only three out of 100,000 who are paid staff.

Philanthropy is not easy to generalize about, despite those meager numbers. There can't be a more esoteric human activity, nor one more extraordinarily diverse—especially given the vast assortment of trusts that exist and therefore of the responsibilities involved. But it is not enough to take refuge in diversity. We have a name, and therefore an identity; we have a function, and therefore a set of personal and public responsibilities. In searching for the spirit of philanthropy, that quintessential that instructs us in how we should behave and what values we ought to symbolize, there are two traditions to explore.

First, that of charity, the older and better understood; it has become almost instinctive in ours and other cultures in its presuppositions if not always its practice. Its "pure theory" builds upon six elements:

1. Altruism, the subordination of self-interest.
2. Compassion and empathy as the best avenues to under standing.
3. Taking the perspective of "the least among us." John Rawls built this into his theory of justice: the just society is one which tests its actions by their impact on the condition of its least powerful members.
4. A readiness to affirm and to act alone.
5. A quest for better human condition, sometimes in its sense of perfection reminiscent of the search for the Holy Grail.
6. Giving as a one-to-one human encounter in a micro world of personal relationships.

In juxtaposition to this tradition of charity, another has evolved, [which] we now call modern (organized) philanthropy. It has developed its own set of presumptions, adapted from and adapting to, another environment:

1. The environment in which it works the one in which institutions, rather than individuals, are the key actors. We have moved from the world of the one-on-one to that of institutionalized interaction.
2. There is a separation of donor and beneficiary into a world of intermediaries. The original donor, if still involved, acts through trustees, who act through staff, who act through one or more layers of nonprofit agencies, who act through staff, who act through a filter of representatives of the class, or problems, ultimately being dealt with. And further distancing occurs with the growth of specialization.
3. A look past the immediate condition of persons to what we call root causes and systemic reform.
4. A tilt toward reason and dispassion as the best route to systemic understanding and change.
5. A consciousness of institutional image and self-concern, ranging from tax considerations and the explicit rationalization by corporations of self-interest in their charity, to the incessant search all of us are engaged in for a distinctive mission and focus.
6. A recognition of a public responsibility, with accompanying public disciplines and restraints—and the redirection of that search for the Holy Grail toward an even more elusive concept called the public interest.
7. A conscious engineering of power, not only through grants and leveraging but through processes such as convening in which the gift plays only a part. Also, an explicit recognition of playing a social role, not simply a personal one.
8. A shift from gift to negotiated contract. We do this to both provide discipline and an assurance of effectiveness by watching carefully the terms of the grant. We also, by that method, allow reciprocity and participation. It is not the Lady Bountiful, unilateral act, and therefore it is consistent with the nature of our time. But have the very words "gift" and "grant" become archaic? Think about the way you deal with applicants. It is a negotiated contract that we have come to, rather than a gift or grant.

Guard your own humanity. The first ethical commandment is to take care of yourself. This is not acting for number one; it means taking care of what you are or should be, so that you can radiate that out to others.

Guard the soul of your own organization, even from your own pretensions. Those of you lucky enough to be part of an institution that has a soul know what a precious environment it is.

9. A search for consensus in approach and resolution. Consensus is an institutional imperative in our times, simply to minimize the friction generated by institutions moving through a crowding social and political environment.
10. A bias in favor of excellence and a meritocratic elite, both as justifications in themselves for philanthropy, but also as the preferred vehicle for helping the less advantaged.

Let's be clear: each of these elements has its own rationalizing logic. I am not putting these things down, but describing them. Each has made its own contribution to the evolving tradition of philanthropy. Without what they represent, charity could never have developed into the equilibrating and distinctive social force it has become. Charity could not have adapted to the social, economic, and political transformations that have taken place in modern society.

But the change has produced an institution and a profession with internal tensions, if not outright contradictions. Philanthropy has evolved, as Joseph Schumpeter once analyzed capitalism to have evolved, to produce a routinization of progress. Good works in our time have become routine, which partly explains the paradox of organized philanthropy routinely turning out worthy grants with gray-flannel-suit regularity and rhetoric—just read all those foundation annual reports.

Have we moved from flesh-and-blood giving to dispassionate and depersonalized philanthropy?

Which of these two traditions—the charitable or the more recent—are we the custodians of? The answer is both. We are tested by how creatively we balance and resolve those contending logics and meld them into a concept and code of behavior that honor the imperatives of both traditions. This may seem, and partly is, just another version of the contemporary dilemma: how do we remain human in an institutional environment?

But it's not that; philanthropy is not just another institution. It stands for something distinctive and special, with a tradition and necessarily a spirit which represent to society the nobler motives of altruism and the more humane considerations so characteristically missing in the worlds of business and politics.

THE SPIRIT OF PHILANTHROPY AND THE SOUL OF THOSE WHO MANAGE IT

Each of us will find his or her own way of living with these tensions-each one's own resolution, each one's own way of contributing creatively to the evolving practice of philanthropy. But there are some guiding maxims and imperatives I would urge on you, though clearly they reflect my own biases and pieties. (You'll note there are eleven commandments. Anything to outdo Moses.)

1. Guard your own humanity. The first ethical commandment, taught to me by a distinguished professor of ethics, is to take care of yourself. This is not acting for number one; it means taking care of what you are or should be, so that you can radiate that out to others. If you lose your own soul—whether to arrogance, insensitivity, insecurity or shield of impersonality—you diminish the spirit of philanthropy. The goal to aspire to is that you will be a distinguished human being who gives to the foundation as much an identity as you derive from it, and far more than the money you give or negotiate away. In a very real sense, you are philanthropy.
2. Guard the soul of your own organization, even from your own pretensions. Those of you lucky enough to be part of an institution that has a soul know what a precious environment it is. It's a secure environment within which distinctive personalities complement rather than compete with each other; it's an open environment in which hierarchy is respected but not imposed, and where posturing and game-playing are unnecessary; it's an institution in which values are explicitly and easily discussed, and there is a consistency between values stated and values played out; it's an organization [that] demonstrates its humanity equally in its responsiveness to the needs and sensibilities of its external constituencies and in the care with which it nourishes and grows in its own personnel.

Follow both routes to understanding, the compassionate as well as the analytical. No one can comprehend the universe who does not understand and care for the sparrow.

3. Be ready to speak out and act on your own on those hopefully rare occasions when principle is at stake or the unspoken needs to be aired.

4. Constantly assess your own motivation, whether what you're arguing for reflects your own power-drive and personal predilections or a measured evaluation of public need and foundation goals. This goes for trustees as well as staff, and ranges well beyond the more apparent realm of conflicts and interest.

5. Scan the whole gamut of your foundation's activities to make certain they are consistent with the goals and spirit of the philanthropic tradition. Are the values that peek through the backpage listing of your investments the same as those featured in the pious opening pages of your annual report? In your convening function, are you more intent on demonstrating influence than on catalyzing and releasing community energies? Do your personnel policies and board compositions jibe with the affirmative action expectations directed at your applicants? Does the care with which you consider public needs and foundation policy match the exhaustive scrutiny you give to applicant proposals and budgetary attachments? Compile your own checklist of such questions; you'll find it an instructive and sometimes chastening exercise.

6. Constantly traverse the lengthening distance between the words used in foundation docket items and press releases and the ultimate impact and beneficiaries of the grants once made. Have the intended beneficiaries really benefited? Who are they, and how many of them are from among the least advantaged? Has the quest for a better human condition dissipated in the chase after some abstraction? Have verbalizations and the mere recital of good grants made substituted for demonstrable attainment of tangible goals?

7. Be willing to open the black box of philanthropy to share with others the mysteries of values and decision-making. They may seem disadvantageous to you as a protective mechanism, but in reality they're a breeding place for personal and institutional botulism. An anaerobic environment is not a healthy one for the spirit of philanthropy, nor for the soul of a manager. Be ready and willing to mix with the community, and with those closer to real life than you are. Engage in dialogue with others who have legitimate interest in what you're doing and who may provoke you into insights that seclusion may have kept you from. Consider another ethical commandment: always be ready to explain publicly your decision and your reasons for your actions. Don't wind up your organization so tight that competing ideas can't filter through.

8. Never stop affirming. When you find your battery of hope, excitement, and even idealistic naivete so drained that you don't let an applicant finish a presentation with out pointing out why it can't be done, it's time you departed for another profession. Philanthropy builds on the hope of rising generations; it lights fires rather than snuffs them out.

9. Follow both routes to understanding, the compassionate as well as the analytical. No one can comprehend the universe who does not understand and care for the sparrow.

10. Don't ever lose your sense of outrage. Bill Bondurant [Executive Director, Mary Reynolds Babcock Foundation, 1974-92] can't forget, nor can I after he related it, the wondering comment of an applicant who looked about Bill's comfortable office and lifestyle: "How, Bill, do you keep your sense of outrage?" There has to be in all of us a moral thermostat that flips when we're confronted by suffering, injustice, inequality, or callous behavior.

11. Don't ever lose your sense of humor. Organized philanthropy so easily dulls into pretentious drabness, and we all need the revitalizing spark of a good laugh, mostly at ourselves.

My own chastening reminder is the memory of a cocktail party at which I, Mr. Big Bucks from the Ford Foundation, was pontificating to all within earshot. To make a point even more impressive, I paused to pick up an olive. But what my bad eyes had missed was that it was actually a cigar butt. Any of you who have ever tasted one knows the abrupt and ignominious end of that pious performance.

Philanthropy—in the degree to which it fulfills the aspiration of its spirit and tradition—is a rare element in our social firmament, a salt that cannot be allowed to lose its savor. It is a distinctive function that, like religion, relies eventually and essentially on its moral power.

We diminish that force when we get absorbed in a mistaken quest for power of another sort, be it money or social and political influence. Philanthropic influence derives more from spirit than from social positioning or monetary domination. The love of that money is undoubtedly the most corrupting element in the grantmaking enterprise.

There is enough of an alien spirit already attaching itself to philanthropy—self-interest being an ancient example and partisanship and political manipulation a more recent one—without our failing to recognize and honor the spirit and tradition of which we are stewards.

The power of organized philanthropy can indeed corrupt. But conducted in a humane spirit, and with soul, it can also ennoble. I was once asked to work for Joe Clark, then mayor of Philadelphia. When I inquired of him what the job was, really, he thought a minute and replied, "To help fight the battle for my mind." It was an irresistible challenge.

But what I'd ask of someone about to join us as a foundation manager would be quite another dimension: "Help fight the battle for our soul."

With Gratitude

The CEO Initiative and this report came to fruition because of the encouragement, nudging, criticism, finessing, and generosity of time, spirit and grants of many individuals and communities of colleagues and friends. With their inspiration and participation, we were able to accomplish so much more than we initially planned and have laid the groundwork for more that can be done in the future. Some of these inspiring and committed leaders are listed on pages 68-70.

Of special mention:

- The National Center for Family Philanthropy Board of Directors carefully reviewed our proposal for a CEO Initiative and gave it both a blessing and a firm foundation. I cannot imagine a more dedicated, smart, or giving governing board.
- The Advisory Committee for the CEO Initiative made recommendations for direction and content of both the studies and the symposia and did it with common sense and uncommon creativity.
- The budget of any nonprofit in this economy is stretched just to cover the basics and this Initiative took the organization—and our resources—way past basic. Yet, intrigued by its subject matter and committed to its potential, many funders found a way in overtaxed grants budgets to contribute to this effort. Their belief in effective family philanthropy and the power of this work to advance that effectiveness is awe inspiring.
- The National Center's Friends of the Family Network and our Leadership Circle sustain the organization with their annual support, their enthusiasm, and their ideas for new programs and services. So much of what we do on a daily basis—answer questions, write issue papers, offer our newsletters and Knowledge Center, and much more—happens only because of our "Friends." The field of family philanthropy is in their debt.

- The Johnson Center on Philanthropy was warmly receptive to our offer to partner on an online survey of chief executives. Miles Wilson (of the Grantmaking School and our Advisory Committee) paved the way and James Edwards, then with the Community Research Institute, now Executive Director of the Johnson Center) worked with us to craft the survey. The hiring of the Frey Foundation Chair in Family Foundations and Philanthropy, Michael Moody, ensured that we had a great team for this portion of the study.
- Alice Buhl, National Center Senior Fellow and my wise and wonderful mentor, was the voice of experience and sounding board for this study. Alice's interviews with board members on CEO leadership meant we had more occasion than usual to really learn from one another, to discover themes in seemingly random responses, to remember why we love this work, and to ensure that work develops with purpose, quality, and integrity.
- The National Center staff all participated in checking facts, reviewing various sections, and making every valiant attempt to keep me on track. Karen Green made invaluable contributions and learned how often (and not!) she could ask me if I were finished. Jason Born was my "source of all facts" and Lauren Hasey kept the full manuscript moving. Michael Goodman just keeps me moving and, thanks to him, mostly in the right direction.
- Lance Buhl continues to edit my work in wonderful ways and his help with portions of this manuscript was invaluable for the coherence it added.
- As always, there are dozens of people in the field—CEOs and others—who reviewed my interview questions, suggested others and gave a hands-on, practical perspective to this study. And, there are more than 60 chief executives who made time to participate, and to participate thoughtfully, in the interviews. Whether the conversations lasted an hour or more than three, each CEO added something special to my understanding of executive leadership in family foundations. That they gave such thought and time to this project is a testament to their commitment to family philanthropy, to their own strong leadership, and to their colleagues.
- Finally, to all family foundation chief executives—now and to come—thank you for what you do for the foundations you serve, the philanthropic families you support, and the communities of place and concern that you advance. It is a privilege to contribute to a greater understanding and appreciation of your work.

VIRGINIA ESPOSITO
President
National Center for Family Philanthropy and
Principal Author, *The Family Foundation CEO: Crafting Consensus out of Complexity*

About the National Center *for* Family Philanthropy

A nonprofit 501(c)3 organization, the National Center for Family Philanthropy has, for 15 years, been the nation's leading voice for the value—and values—of family philanthropy. The National Center has sponsored groundbreaking research on governance practices, family dynamics, and management options for families, and has developed the Family Philanthropy Online Knowledge Center, the largest and most comprehensive database on family philanthropy in the world. We have developed and published many of the field's most widely read guides, including the *Passages* issue paper series, organized national symposia, and presented at hundreds of events in cities and regions around the world on our core belief in the value of family involvement in philanthropy.

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The National Center *for* Family Philanthropy CEO Initiative

In 2010, the National Center for Family Philanthropy began extensive research into a subject that had never before been deeply explored: the leadership role of a family foundation chief executive. We wanted to fill a critical gap in the field's understanding of the unique roles that define this profession. This guide is one of the outcomes of that work.

Our goal was to take the conversations that CEOs and boards had been having informally for years and bring discipline and research to the discussion. We wanted to provide research-based information to help boards and CEOs navigate this complex partnership.

To gather data, we conducted an in-depth interview study of 60 CEOs (some with the title of executive director or president) plus a sampling of board chairs. We also conducted an online survey of 200 CEOs in conjunction with The Johnson Center for Philanthropy at Grand Valley State University. Those findings helped shape the agenda for a national symposium for an invited group of 75 family foundation CEOs held in Washington, DC, March 23-24, 2011 at the Pew Charitable Trusts conference center. The symposium gave the CEOs a confidential space to talk candidly about the challenges and exhilarations that define their profession.

Several new resources and services for the field have grown out of this research. We've added to the field's literature through a research report and a series of guides. We've also launched an array of in-person educational offerings customized for veteran CEOs, those who are both CEOs and members of the donor family, and for new trustees. And we are using social media to connect more CEOs and board members for virtual discussions on board-CEO partnerships.

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About the Author

Virginia M. Esposito is the founder and president of the National Center for Family Philanthropy. For more than 30 years, Ginny has worked to advance private philanthropy through research and education. For 25 of those years, she has focused on the family philanthropic experience, promoting values, vision, and excellence across generations of donor families.

She served as the editor and principal author of *Splendid Legacy: The Guide to Creating Your Family Foundation* and *The Power to Produce Wonders: The Value of Family in Philanthropy*. Ginny also edited, and was principal author of, the four-volume Family Foundation Library and has written numerous articles and issue papers on family philanthropy. She has presented at hundreds of programs for and about donor families throughout North America and on four other continents.

In addition to her work on family philanthropy, Ginny edited *Conscience and Community: The Legacy of Paul Ylvisaker*, the writings and speeches of the late foundation trustee, educator, and dean of the Graduate School of Education at Harvard University.

Ginny has served on a number of philanthropic boards and committees. She currently serves on the Board of Directors of Great Nonprofits, Independent Sector's Ethics and Accountability Committee, and as the Frey Foundation Visiting Scholar on Family Philanthropy at The Johnson Center on Philanthropy.

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