NATIONAL CENTER FOR FAMILY PHILANTHROPY

EXECUTIVE SUMMARY[1]

The NCFP and LGA Collaborative Pilot Research Project on Philanthropy in Complex, Multi-Generational Families: To Integrate or Differentiate?

Kelin E. Gersick, Ph.D. and Wendy Ulaszek, Ph.D.[2]
October, 2019

In *Generations of Giving* (2004), researchers from Lansberg, Gersick and Associates and the National Center for Family Philanthropy explored governance and leadership over time in family foundations. They concluded that there were three characteristic types of family foundations, with each type demonstrating a range of governance designs, techniques for managing family dynamics, and grantmaking procedures.

- The ***Controlling Trustee Foundations***, in which founders were facing the dilemma of whether to a) focus on a donor-chosen mission, recipient population, or set of priority grantees; or to b) focus on creating a setting for transmitting a set of philanthropic values within the family, by pursuing a collectively-determined (and evolving) set of grantmaking priorities.
- The ***Collaborative Family Foundations***, marked by expansion in the family and, at some point, the departure of the founders. These foundations grew from a personal giving outlet for a few family members to a formal organization. The key dilemma was how to design the rules of participation and authority to make joining the foundation attractive, and to protect fairness in representation, while getting the work done.
- The ***Family Governed, Professionally Managed Foundations*** had grown in size and complexity to the point of being faced with a dilemma about the ongoing role of family members. Some families maximized professionalization, and felt very comfortable anchoring their future participation in the board or trustee group and assigning operations to hired staff. Other families chose to be high-involvement, hands-on grantmakers in perpetuity.

Building on that work, the specific focus of this current project was to expand the analysis from the governance of a family *foundation* to the governance of family *philanthropy*. The largest and most complex exemplary philanthropic families now face many challenges beyond foundation operations. Increasing size, geographic dispersal, and psychological distance from the founders all contribute to the difficulty of finding ongoing roles for family members that satisfy both the individual's needs for self-expression and authenticity and the collective need for buy-in to the collaborative process of the foundation. Partly in response to increasing family diversity in philanthropic goals, many families have begun new initiatives that go beyond the legacy foundation. These initiatives may include any combination of branch foundations, donor advised funds, individual giving programs, mission-aligned endowment management, and family-guided corporate social responsibility programs.

This pilot project is an initial exploration of this array of "delivery vehicles" for the family's philanthropic agendas, exploring four core research questions:

---

[1] This note is excerpted from Ulaszek and Gersick, *Philanthropy in Complex Multi-Generational Families,* National Center for Family Philanthropy, expected 2019.
[2] Co-authors, listed alphabetically.

1. Does integration or differentiation of mission best serve the family's philanthropic goals? Under what conditions do families seek to create a unified strategic approach across foundations, funds, personal giving, investing, and CSR to maximize impact? In contrast, when and why do they maximize separation among these vehicles, and how does that work?
2. How is the human capital of family members efficiently and effectively allocated across all of the different philanthropic vehicles? Who should lead what? How does that evolve within and across generations?
3. What is the range of roles that controlling owners/shareholders assume in an operating company's philanthropic and community social responsibility programs? What works, and what causes confusion and ineffectiveness?
4. In the most pragmatic terms, what can we learn about organizational structures (legal forms, boards, professional staffing), policies (director or trustee terms, rules for representation, roles for the next generation and spouses, endowment management and venture philanthropy), and procedures (meetings, leadership selection and authority, working relationships with staff, information-sharing and communication) that have proven successful in these most complex philanthropic systems?

Study Design
To research these critical questions, NCFP and LGA invited a small number of multi-generational philanthropic families to participate who have three or more (in some case, many more) active philanthropic structures in place (one or more foundations, donor-advised funds, corporate social purpose programs with family input, impact investing of the endowment, and/or significant individual giving programs, etc.).

Findings of the Pilot Study
The nine cases in the pilot study generated the following findings on each of the four core research questions:

Research Question #1: <u>Integration vs. differentiation of mission across vehicles.</u>
The families in this sample tended to see strategy and mission as organization-specific, and there was little evidence of effort to coordinate or consolidate funding programs across the delivery systems. In fact, interviewees indicated that they saw the proliferation of donor advised funds, spinoff foundations, and personal giving as a *counterbalance* to the integrated, focused mission of the core foundation. (The one exception to this differentiation of mission was "next-generation" funds, which were typically still seen as operating within the foundation guidelines.) Individual giving and donor-advised funds were most often viewed as private and not discussed. Sometimes family members would voluntarily describe a personal funding priority when they wanted the foundation, or other family members, to also support the same grantee. Otherwise, the grantmaking profiles were "don't ask, don't tell."

Research Question #2: <u>Human capital allocation to various governance roles.</u>
There was almost no proactive effort in the families to consider the governance needs of the various delivery vehicles as a whole, or to plan or lobby for any overall "best fit" allocation of the available time and attention of family members into governance slots. Serving in governance roles – legacy or "big board" members, boards of other branch foundations, family office boards, trusteeships, holding company boards – were each treated as *separate opportunities*, with their own criteria and succession plans.

Research Question #3: <u>Corporate philanthropy and social responsibility.</u>
There was particularly little evidence of integration, *or even communication*, between the foundation, the individually governed funds, and any charitable programs within operating companies owned by the families. In one case the business CEO was also head of the foundation, but that was not the norm.

One unexpected learning was the degree to which the families' interest in social responsibility has shifted from charitable programs within their operating companies toward asset and investment management. Seven of the nine sample families have explored or implemented some aspect of mission-related investments (MRI) or program-related investments (PRI) in their endowment portfolio management.[1] The impetus for this approach most often came from senior staff, supported by members of the rising generation (or vice-versa), or from respected and trusted non-family advisors.

Research Question #4: <u>Structures, policies, and procedures for integrated governance.</u>
There were no shared structures across the nine cases in this pilot sample that permit general proscriptions on "best practices." As described above, we usually found little attention devoted to integrating structures and procedures. To the contrary, efforts to maximize efficiency and share resources across different philanthropic efforts were seen as difficult and time-consuming. There were two areas where there was frequent sharing: human resources (staffing) and financial management, but even in those functions there was often considerable tension as a result of differences in purpose, skill sets, and formulas for compensation.

Discussion and Implication of the Study Results
This pilot study explored four research questions about how complex philanthropic families conduct their governance activities across a range of "delivery vehicles." In general, the study suggests three preliminary trends in this sector of family philanthropy that deserve further investigation:

1. Families prioritize privacy over integration.
2. Families prioritize maintaining the core mission of the legacy foundation without significant revision, and using new and different structures to implement new and different funding priorities.
3. Families are optimistic about the philanthropic values in the rising generation, but pessimistic about the availability of the next generation to continue the governance work in the existing (and often expanding) foundation(s).

It appears that most of these families have decided to continue on a path of strategic focus and collaborative process <u>within</u> their core foundation, but to use other vehicles to express individual priorities. In the words of one respondent, "We now strive for harmony without unity."

However, many of the family philanthropic leaders also expressed concern about the costs and risks of choosing a highly differentiated, non-integrated governance process. They most often mentioned:

- Reduction in commitment to the negotiating process and to family "learning about each other;"
- Reduction of clarity of the family's philanthropic reputation and identity in the community;
- Reduction in scale, particularly for high-impact "lead" priorities.

As a response, some of these families are making serious efforts to resist over-fragmentation. Steps that were mentioned included:

1. Efforts to share more information about personal and DAF giving. Some families have asked staff to design procedures that track and report grants from all vehicles and individuals in a consolidated way, or at minimum to alert family members to requests from potential grantees to more than one family member.
2. More transparency to family shareholders about corporate giving programs, and a family liaison role between corporate programs and the family foundation.
3. In those families with multiple foundations, board service rules that encourage shared directors or term limits that facilitate individuals serving sequentially on different boards, as a way of transferring learning from one setting into others.
4. Shared office space maximizing physical proximity ("Staff of the foundation and the impact investment committee work so closely together, we can have spit ball fights"), traveling together, and planning overlapping meetings or educational sessions to learn together.
5. Periodic "grand strategy" retreats, where foundation, corporate, value-investing, and DAF/personal giving missions can be discussed together. This effort is particularly important in emphasizing that structural differentiation does not automatically mean strategic "silo-ing" and secrecy; the process of collaboration can happen across philanthropic vehicles, not just within each one.

Further Research

Going forward, there is much more to learn about this process. The number of families who are expanding beyond their foundation and creating new and different ways to be philanthropic will continue to grow. In particular, these exploratory findings suggest the need for more study of the long-term viability of privacy and individualism while still maintaining a meaningful commitment to a collaborative legacy foundation. Much more work on MRIs, PRIs, and new developments in corporate social responsibility programs is needed, especially on how the most successful families are blending those efforts with traditional grantmaking.

Finally, additional case studies of complex families who have made the choice to strategically integrate and govern their personal, corporate, and foundation giving, DAFs, and impact investment programs into a single, focused strategic approach would be very useful, offering a counterpoint to the trends emerging from this study. To integrate or differentiate remains a meaningful question; this pilot study sheds light on how some exemplary complex families are choosing to structure their philanthropic tools to answer it.

Wendy Ulaszek is a Partner at Lansberg, Gersick & Associates (LGA), a research and consulting firm that serves family businesses, family foundations, and family offices world-wide.

Kelin Gersick is co-founder of LGA, and lead author of *Generations of Giving: Leadership and Continuity in Family Foundations* (2004, Lexington Books), and *The Succession Workbook: Continuity Planning in Family Foundations* (2000, Council on Foundations).