NATIONAL CENTER FOR
FAMILY PHILANTHROPY

SPLENDID LEGACY 2

CREATING AND RE-CREATING YOUR FAMILY FOUNDATION

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VIRGINIA M. ESPOSITO, *Editor* | PETER PANEPENTO, *Associate Editor*

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"Families come to realize that deciding to allocate some of their wealth toward charity, picking priorities and giving away money, is only just the beginning."

— *The Power to Produce Wonders: The Value of Family in Philanthropy*

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PART I
CREATING YOUR FAMILY FOUNDATION

FOREWORD

Every family has a unique story to tell about its journey into philanthropy.

For Paul and I, that story began when we married in 1997. Each of us were in our 40s when we tied the knot — and each of us had already established ourselves professionally.

Paul, an entrepreneur, built the desktop publishing company, Aldus. Debbi, meanwhile, had crafted her own career at Nordstrom's flagship store in downtown Seattle.

As we embarked on our new life together, we each found ourselves with more resources than we had ever imagined. But while each of us had grown up in middle-class families who taught us the value of giving back, "philanthropy" wasn't a word that was was a part of our vocabulary. We had learned about helping others through church and helping our neighbors, collecting money for UNICEF boxes, and giving at work through United Way. From these early experiences, we both knew that giving back to our community was important to us.

As we became more involved in our community, we discovered that effective philanthropy was about more than just money. We sought out information about the legal and tax issues that affected the family foundation we established. We also volunteered for a number of local nonprofit boards. We studied unique models and ideas and talked with other families from earlier generations to learn what they were doing.

Splendid Legacy 2 would have been an amazing resource for us back then. This book brings together a wealth of information and offers insightful guidance from thoughtful, knowledgeable experts. It is a comprehensive guide for families as they consider the importance of lasting decisions when forming a family foundation.

As your family begins its own journey into philanthropy, you will no doubt take a number of unexpected twists and turns. We encourage you to get into this experience with open eyes — and to be open to discovering how you can take your unique perspectives and ideas and shape them into something meaningful.

For us, the last 20 years have given us the opportunity to take our core value of "giving back" and define what that means to us as individuals and as a couple. We have taken on philanthropic projects separately and together. This aspect of our lives has offered some of the most fulfilling, challenging, and gratifying work we have ever done. We discovered truth in the following adage: Whatever you invest in the lives of others, you are paid back many times over and often in wonderful ways.

Our annual giving is now divided into two distinct financial categories: our smaller community gifts and our larger strategic gifts, where we personally get involved to help organizations refocus, build capacity,or take on new initiatives. Our giving is primarily directed at environmental conservation, education, children, and health care. In some instances, we've combined these priorities.

We've also been able to get creative about how we used our resources.

When Paul sold Aldus, he created the Brainerd Foundation as a way to give back and support the environmental causes he cared for deeply. As a native of Oregon, he grew up hiking, wandering the forests, and enjoying the wilderness.

Debbi had a similar passion for the outdoors. While she was growing up in Seattle, her family would take weekend trips to Whidbey Island, where it spent time on the beach and in the woods, and sleeping in their one room log cabin.

These experiences became the genesis of Debbi's idea for IslandWood. She learned that many children were growing up without access to the natural environment, and we both believed that if we were going to create future stewards of the environment, we must foster a connection to nature at a young age.

We both believe that nurturing a curiosity and love of the natural world must come from first-hand experiences in the outdoors, and we noticed that children from underserved communities were not getting access to the woods, the beach, and outdoor garden classrooms. Families with money were providing their kids with these kinds of outdoor experiences and we wanted to level the playing field for children who weren't getting high quality outdoor educational experiences.

Debbi's vision for IslandWood exceeded our own resources, so she ended up embarking on a fundraising campaign that aimed to match our family's initial $30 million investment in the project. Thousands of people in and around Puget Sound have contributed to, IslandWood, which is now an international model of residential environmental education and an example of how a community can come together as investors around a compelling idea.

Paul, meanwhile, has attempted to use the lessons he had learned on his philanthropic journey to help others achieve greater impact through Social Venture Partners. Much like this book, SVP works to teach others about the philanthropic process. We learned through SVP about the power and value of a peer network in which families and individuals learn from and collaborate with one another to support nonprofit organizations.

We both believe we were put here for something larger than ourselves. Since spending time in New Zealand, we now have found ourselves working on a large community project there. As others like us realize, when something touches your heart, it's hard not to want to get involved and give back. *Splendid Legacy* provides a foundational framework to support your community giving — and we believe you'll refer to it throughout your family's philanthropic journey.

PAUL AND DEBBI BRAINERD,
Founders
The Brainerd Foundation

Social Venture Partners

IslandWood — A School in the Woods

The HeadWaters and Glenorchy Community Trust, New Zealand

INTRODUCTION

The stunning image of Arizona's Antelope Canyon that graces our cover will, hopefully, provide moments of reflection and peace as you navigate your foundation's ever-changing course. The challenge and wonder of the canyon are as complex as the formation itself. It is the result of both powerful and subtle forces — water, wind, sand, rock, and sunlight — coming together to spectacular effect. Finding it, however, is an almost impossible task without a guide, since the location of this natural treasure is not immediately apparent. But if you take the necessary risks to find it, the reward is nothing short of amazing. With the support of a Navajo guide, you can find the canyon and all the wonders within. The experience and result are pure magic.

Splendid Legacy 2: Creating and Re-Creating Your Family Foundation is your guide to marshaling the forces of family and charitable intentions for your own magical experience. There will be times you will need to summon the insight and courage to make dramatic shifts and subtle adjustments. You will need to figure out what and where your treasure is and just how much risk you are comfortable taking on. But, as Alexis de Tocqueville wrote about our early American voluntary spirit, the effort has the "power to produce wonders."

You may have already decided to create a private foundation or may still be weighing which charitable vehicle is best for your family. One of the significant differences between this completely rewritten volume and its early-21st-Century predecessor is the variety of vehicles available to you and your family, donor-advised funds chiefly among them. Today, it is also common for families to give through the family office or business. There are also a number of lesser-known vehicles that might be perfect for your aspirations and circumstances.

If you have determined a private family foundation is for you, you are likely motivated by working with your family and advisors to make bold decisions on behalf of cherished causes and communities. There will be opportunities to be involved in governance, financial investment, and succession planning that may not be part of other vehicles but, as with Antelope Canyon, high risk, high reward.

When we were developing the first edition of this volume, the Internet had not yet transformed the practice of giving. And we are taking best advantage of that resource to support the users of this guide. A special website, **www.splendidlegacy.org**, has the sample policies, forms, job descriptions, and a wealth of other relevant material designed to complement this guide. It features the best thinking and practice of your colleagues who have generously made their work available to those who might benefit. By making it part of the website rather than this printed volume, we can ensure the material is constantly updated to be as current and useful as we can possibly make it.

On behalf of the National Center for Family Philanthropy, it is my honor to dedicate *Splendid Legacy 2* to giving founders and families everywhere. With grateful hearts, generosity of spirit, and deep wells of optimism, you are making a personal commitment to a cherished tradition born of public trust. Many will benefit from your stewardship — and some of us will be privileged to support you. Please know you have our heartfelt gratitude, our profound hopes for your success, and our sincere promise to be there as you need us.

Ginny

VIRGINIA M. ESPOSITO
Editor, *Splendid Legacy 2: Creating and Re-Creating Your Family Foundation*

CORE VALUES OF A SPLENDID LEGACY

BY SARAH J. CAVANAUGH

Editor's Note: Sarah Jane Cavanaugh is a family trustee and was the first CEO of the Russell Family Foundation and a former board member of the National Center for Family Philanthropy. This reflection on her experiences in family philanthropy offers an excellent starting point as you begin your own journey into creating and building your family's philanthropic legacy.

The Value of Values

Values are so inextricably woven into our language, thought and behavior patterns that they have fascinated philosophers for millennia.

— Alvin Toffler

Everything we do as humans originates from our values—the things that are most important to us. When we act in alignment with our values, we feel in alignment with ourselves, and with those around us. Values guide our decisions and actions; they stabilize us as families and communities and cultures; and they underlie a legacy, even if unspoken.

I took an interest in articulating values when my mother asked me to lead the effort in exploring family foundations in 1995. I researched family foundations around the country, traveling from Alaska to San Francisco and New York to meet with foundation advisors, trustees, and staff. I spoke with some of the most generous and interesting people I had ever met.

I came back knowing two things:

1. I wanted to be part of this world of generous people, and
2. In order for a family foundation to work, my family would need to explore what we have in common.

Family philanthropies that articulate and agree on core values are stronger and more sustainable over time. Values enliven our programming and operations, give common ground and purpose to family and board interactions, and ensure all choices are consistent with underlying principles.

Values build and strengthen a legacy in families. I hope my story will spark some ideas to get you started with your foundation's values, or revisit the ones that you have now as part of your own family legacy.

Where Do Values Come From?

I had wonderful role models in terms of generosity and giving, particularly in my father. He was soft hearted… and he would bring people to our back door, knock and say to Lucy, my mother, 'these people haven't eaten in a couple days, they need to eat'.

— Carmen Castellano, Co-founder,
Castellano Family Foundation

Personal values are deeply rooted in our early childhood and often recalled as a lasting memory. These values instilled in childhood translate directly into philanthropy, how a family business operates, and how we live our lives.

My parents, Jane and George Russell, were my first role models, and I picked up values by observing how they lived and the choices they made.

My mother began her career working at home raising four kids. Her self-proclaimed title "Flexible Systems Engineer" was honored in a book written about her life after she passed in 2002. When we were young, she volunteered for the YMCA one day a week as a swim instructor. By the time I was in high school, she had served many hours in several nonprofits and was the president of the school board. She was passionate about education and new learning. Even as a child, her nickname was "How Come." She was always asking questions.

Mom was inclusive: she loved meeting different people, especially when my parents traveled the world; she nurtured the individual interests of her children, and encouraged us to explore; she was an astute listener—she paid attention; and she had a huge heart for people—for everyone she met.

The minute I went to college, she joined the family business, heading human resources for Frank Russell Company. She dubbed the HR Department the "People Division." She said she joined FRC so she could spend more time with my dad. For her, it wasn't about meeting her own needs; it was building her relationship with my dad and keeping their relationship strong.

My father spent long hours building Frank Russell Company, which he named for his grandfather, a man he loved and respected. His grandfather taught him about non-negotiable integrity and living a clean life. Dad was intense and creative; he was an idea person. After dinner, he would sit in his red leather chair in our family room, his briefcase open. Before the invention of home computers, he would scratch notes on yellow legal pads. He was always working, always studying something. His brain never stopped.

Dad valued securing the financial future for people with steady jobs, and he identified ways to do it that had never been done before. He could have moved to New York City and become a finance king on Wall Street. Instead, he grew a global investment advisory firm in Tacoma, Wash. It was clear to us how much he loved the Pacific Northwest. Every summer he would leave the briefcase at home and take us for two weeks to the Gulf Islands in British Columbia; we didn't go far to enjoy family time. He taught us the value of place and of family.

Together, my parents taught me the values of family, place, hard work, listening, learning, and giving back personal time. When it came to philanthropy, they focused first on our family. They raised us celebrating our unique talents. They knew we were quite different from one another, and we needed something that could strengthen our similarities more than our differences.

The best tool we found to achieve this goal was to write our philanthropic values statement as a family. This tangible, written statement gave us something to which we could all align, and it does to this day.

Uncovering Shared Values

Over time, family members change and program priorities change; what holds the family and its philanthropy together is the legacy of its values. This legacy provides continuity and our donor family believes it is that continuity — the family values — that gives the family philanthropy its special character.

— Bruce Sievers, Executive Director, Walter and Elise Haas Fund (1983 – 2002)

In our family, exploring values led to rich and courageous conversations that spanned generations. In the four years prior to the foundation being funded, our 10 family members, spouses included, met to talk about our values. (Early conversations helped us discover that including spouses as "family" was a no-brainer, which is not the case for all family foundations.) It was a long process of deciding whether or not we actually wanted to "do" philanthropy together. We hoped to honor my mother's deep desire that this would happen, and yet we needed to take baby steps to see if it could come together in a good way.

First, we had to learn healthy communication skills between two generations as peers, and we were fortunate to have founders that welcomed the second generation's participation. We were fortunate to work with gifted facilitators, including John O'Neil, president of The Center for Leadership Renewal. He helped us navigate the transition from a family business to family foundation, and he introduced us to foundations of various sizes to explore the joys and pitfalls of family philanthropy.

In addition, I created a survey for my family about values and money. The survey included questions such as:

- *What is your own personal way of dealing with money—are you a saver, spender, giver?*
- *How do you feel about money—does it give you anxiety?*
- *If you personally could give away $1 million, where would you give it? Why?*

We found that speaking on a personal level removed the generation gap. It was no longer parents and their children in the room; it was each of us, as individuals, sharing our experiences. Together, what we uncovered was a deep fear that money ruins families. As we grew up, my dad shared with us horror stories of families torn apart by wealth. As adults, we all wondered: what would happen to our family when Frank Russell Company sold—even if we're looking at it through the lens of philanthropy?

Our fears were not unfounded. In research of other family foundations, I learned how troublesome dynamics often derail the focus on the public good, or worse, break up the family. My parents didn't want that to happen to us; no one did. We would have never known we shared this unspoken fear had we not had these conversations. My mother was strong in her conviction that a foundation would be a way to keep the peace in our family when the business sold. And it was clear that if the effort to launch the foundation became divisive, my dad would shut it down.

We carried onward: Our board met to allay our fears and understand how to navigate our differences so that we could collectively be responsible for a public trust. Some of these conversations were difficult, as we have vastly different views. But my mother was a master at embracing difference, and we learned from her. We were able to come to consensus on our core values by staying focused and determined that these efforts not pull our family apart.

Through this process, I noticed how many assumptions we make about the people we're closest to. Early on in our conversations, we added a tradition of passing a meaningful object to conclude the meeting. I used this in our board meetings as a way to make sure everyone's voices were heard. When it was my dad's turn, he showed up with a piece of driftwood he found near the Puget Sound. He spoke about the piece of wood in metaphors about what place meant to him. You could have pushed me over with a feather; I never expected a spectacular metaphor to come out of my left-brained father.

This taught me something: We need to allow our family members to surprise us. I thought a values conversation would be too "woo woo" for my dad, and I was wrong. I had assumed the people sitting around our table were either "doers" or "processors," and never the two shall intertwine. To my surprise, I found out that the doers could be coaxed into processing, and the processors could be coaxed into getting something done! That's the joy of foundation work.

How Values Relate to Your Mission

In family philanthropy, the term "family values" means the common characteristics that align you and your board members. Values are not endeavors, such as feeding the hungry or housing the homeless. They are the qualities of being that lead you to these actions; the underlying virtues that the founders and/or current board of a foundation hold most dear. It is often values that bring the family together and the foundation into being—and your funding areas into focus.

For example, Ellen Perry, one of our early meeting facilitators, remembers how interconnected our family was with our hometown. Our home on the Puget Sound was something that we all felt passionate about, and still do today. From this shared value and commitment to place, we were able to eventually develop programs rooted in our region. While our programs have evolved and we shifted priorities over the years, our values have remained the same.

Sometimes, sharing the philanthropic impulse alone is enough for families to come together; and yet, it's helpful to go beyond that. Perhaps you and your family members value integrity, compassion, and honesty. Or you all value respect for all people and the earth. Do you value big risks for change and big ideas? Maybe you most value your religious traditions.

If you are exploring values for the first time, resist the urge to start the conversation with "So what do we want to fund?" Although values and mission are related, there is an important difference between them.

Your mission defines the purpose of your philanthropy—what you hope to accomplish as a foundation, whether that's broad or specific. Your values statement describes the underlying principles that inform how you approach what you do—how you engage with others, and to what you aspire. While a mission can change based on the current focus of the foundation, your values statement does not. It is what guides the family in all aspects of governance, grantmaking and operations.

Both David and Betty Jones came from humble backgrounds and grew up in Louisville, Ky. David Jones was a co-founder of Humana, the healthcare company. Jones once said to his children at a foundation meeting: "Mom and I have always tried to give at the intersection of passion and competence." This phrase has become a touchstone for the family's decisions about their philanthropic strategy and even about individual grant proposals. The discussions that apply the discipline of searching for 'passion and competence' in our grant strategies almost guarantees they never focus on money, but rather, on values—and by extension, on hope: hope for real movement toward positive change in any of the arenas in which the foundation works."

— Bruce Maza, former Executive Director and Senior Fellow, C. E. & S. Foundation

Articulating Your Values— Is there an App for this?

In our fast-paced world, how do you take the time to sift through years of family dynamics to articulate a set of shared core values? And how will you introduce the next generation into your family philanthropy to honor the values of the past and move toward the future?

There is no app or shortcut to get at the heart of what you believe as a family or why you are dedicated to giving back. You can get to authentic core values only through a deep dive. This cannot be done simply by writing down aspirational values. You must set aside the time to intentionally dialogue with your board about values and why those values are important. To succeed, you must agree to work together toward a set of values that will guide your philanthropy.

At the Russell Family Foundation, we discovered that together we share values around integrity, mutual trust and respect, honest and constructive communication, life-long learning, and courage. We recognized our responsibility as humble stewards and decided, as a group, that we are satisfied with quiet impact.

We wrote our values statement at a two-day retreat guided by facilitator Ross Anderson. We spent the first day generating ideas and the second day writing the statement. Yet we couldn't have created this statement without the three years of conversations we had ahead of our retreat.

Of course, it's one thing to put values down on paper; it's another thing to live them. To bring our values to life, we realized they must become ingrained in the foundation and everything we do.

Here are a few examples of how these values have played out in our foundation, and how they might in yours.

Governance

Our family includes members with vastly different political views. When you have people with opposing viewpoints, it's not an easy road. Our values have influenced our transitions and helped us communicate well across generations. Despite our differences, we learned that, surprisingly, we have more in common than we initially thought. This has helped us navigate family dynamics that could have easily pulled us in different directions.

Though "dynamics" often connote negative family interactions, a clear set of values ups the chances for positive family dynamics in the boardroom. For example, if your board focuses first on giving and building a stronger community, it will organically help everyone leave the family baggage outside the door.

Values have also played out in how we choose non-family board members based on their alignment with our values, not on their content expertise. By including others who share our values, we've all learned together and it's been easier to maintain a balance of voices in the room.

Grantmaking

Values have a direct connection to grantmaking. If your board values creativity, for example, you may gravitate toward gifts to the arts or start-up organizations that offer new ideas.

In our foundation, the value of "life-long learning" has translated, in part, to evaluating our grantmaking programs, with a special emphasis on our mistakes. We've found that mistakes in grantmaking are the best opportunities for learning, and we continue to celebrate them. In addition, being transparent about our mistakes has encouraged our grantees to do the same. For example, on our website, we posted a video that told the story of a failed mission-related investment and what we learned. Our website also has a tab titled "Accountability," which explains how we evaluate grants and learn from them.

Staffing and Operations

We rely on our values to make important decisions about our operations. When we hired our first non-family CEO, I outlined an ideal candidate based on our values and John O'Neil's principles of *Aikido Leadership*. This gave us the clarity we needed to hire someone who aligned with our values. In the end, we didn't choose the person who had expertise in the programs we wished to fund; we chose a person who carried a Marianne Williamson quote in his wallet about what most frightens us. As he left the interview, he turned to us to express his sincere wish that we find the right person for the job. His humility was palpable. When we hired our now longtime CEO, Richard Woo, he said to my parents: "I don't know anything about environmental funding." My dad replied, "We don't either. Let's learn about this together."

When my mother, the foundation of our foundation, was diagnosed with terminal cancer, our mostly family board needed to focus on her health for a year. We were able to lean on Richard knowing that he was hired as CEO in alignment with our values. During this difficult time, the work of the foundation continued without interruption. We trusted Richard would operate in a manner consistent with our values — and he did.

Anchoring Transitions

Change is a disruptive force that tests the resilience of the foundation and its values. As our CEO, Richard has said, "Often, points of difference are restrained and contained in an organization, and then because of a major transition, those differences arise unexpectedly—causing conflicts that really challenge those founding values."

We have relied on our foundation values to anchor transitions. When in the midst of change, such as bringing on a next generation board member or hiring a new CEO, it's a good time to write or revisit core values, and make sure everyone on the board still whole-heartedly endorses them. (This conversation may also name the "elephant in the room," so plan meetings carefully.) By committing to live and give by specific values, you and your board can pave the way to embrace change.

The Durfee Foundation revisits its core values every two years. This retreat process allows us to reflect on our common values, and learn and redefine what grantmaking strategy will best live out these values in the future. It also allows for the family story to unfold. Telling stories behind values ground and orient old and new board members alike.

— Carrie Avery, President, The Durfee Foundation

Transparency

If you decide to publish a values statement, you are sending a signal to the community that you are on solid ground. Transparency provides a clear picture of what you stand for and an opportunity for mutual respect. By putting your values out there for the world to see, you position your foundation as thoughtful and accessible—inviting others to understand what motivates your philanthropy.

Our foundation takes this seriously. When a visitor comes to our website, the first thing he or she reads "ABOUT" our foundation pertains to our values:

"The Russell Family Foundation values integrity, mutual trust, constructive communication, life-long learning, and courage. We seek to demonstrate these values in all of our activities.

"As an organization committed to life-long learning, we apply what we learn from our actions, the work of our grantees, and our community partnerships to improve upon the past. By sharing what we learn, we hope to help others do the same."

Articulating Values is a Choice

I meet many colleagues who think they can have a family foundation without articulating their values. After all, developing a shared set of values requires hard work and it takes time. Yet a values discussion is an opportunity to do something that has huge payoff. It leads to a more satisfying experience and it leads to more effective philanthropy.

In our foundation, sticking to shared values hasn't always been easy, but it's been well worth it. We perhaps would not have stayed together as a foundation if we didn't have these early conversations around values. My mother was determined that the foundation would strengthen our family and build community. Yet she made it clear that this effort not be a forced march.

If we had nothing in common, we would have looked at my mother and said: "Let's not do this." We had the choice. So do you.

Values are inevitable. They exist whether we give voice to them or not. Rather than keep them as wall-flowers in the room, why not invite them to dance? It doesn't take a certain kind of person or board to bring up these conversations. With the simple invitation to do so, everyone can embrace the opportunities such conversations hold.

There's also a wider-reaching reason for articulating values—one that goes beyond my family foundation or yours.

As holders of the public trust, we have a mandate to articulate and share our values. It's simply the responsible thing to do. The more the world understands the values that inspire us as philanthropists, the more we elevate the field of family philanthropy as an important part of civil society. And the more we hold steady to the values we create as families and as groups, the more we practice ethical decision making and intentional grantmaking.

Five Ways to Get Started

1. **Take your time.** Know in advance that teasing out values is a process—one that takes patience. At our foundation, we took time to develop trust and mutual respect. This process was difficult for some of our board members who aren't used to talking in this way. In the end, they agreed it was time well spent to hear from everyone in the room.

2. **Hire a trained facilitator.** In a board retreat, a trained facilitator can create a safe space to improve communication skills, make sure all voices are heard, and reach consensus on a short list of shared values that in turn may serve as ground rules for behavior in the boardroom.

3. **Tell stories.** One of the most effective ways to learn is by listening to stories. Our family began the values conversation by telling stories about the emotions and thoughts we had about money as we were growing up. The stories then expanded beyond money to how we gave our time: through volunteering, and to our life's work and passions. Through stories, we learned a great deal about each other and built mutual respect.

4. **Identify conflicts and potential trouble spots.** As we worked to identify our values, my family had tense conversations about subjects such as religion and politics. To overcome these tensions, we identified these topics as potential trouble spots and have chosen to focus the conversation on subjects that bring us together. We still have conflicts in our boardroom from time to time, but it allows us to openly recognize and respect our differences.

5. **Document the process for future generations.** If possible, film or audio tape the original donors, or if they are not available, the current board to give perspective and background on why they chose the family's statement of values. The values statement will have more staying power if it is placed in the context of the larger family story. When our generation shared its story about how we faced challenges coming to consensus with our next generation, they were surprised and curious about the process. You may wish to use excerpts of these stories in public media to increase transparency.

Bringing Values to Life

Here are some ideas to incorporate values into board discussions and retreats:

- From your core values, develop a vision of ten words or less that board members can recite by heart.
- Translate your core values into day-to-day ground rules to guide behavior during meetings (e.g. "Play fair, be respectful and have fun").
- Develop an open exchange between multi-generational board members as peer donors by adding an agenda item for a quick personal reflection. This might be a story about a discretionary grant or a personal passion.
- Tell a story about how one of your core values relates to family history (e.g. why you value what you do).
- Design a magazine cover for the future. What words would someone use to describe the difference your philanthropy has made in 10 or 20 years or more?
- Write a letter to your grandchildren, even if they are not born yet.
- Revisit the values statement with the family two generations removed from the founder(s). Can they understand and express them in their own words? Can they tell the stories that originated the philanthropy? What can you learn from listening closely?
- Develop a family tree and honor all branches. Archive family photos online so all family members can access.
- Use one of many tools to bring to light how each board contributes (Birkman Method, Myers Briggs, etc.).
- Take a moment (or more) for gratitude, to celebrate the work of the foundation.

The Russell Family Foundation's Values Statement

Our Values

We value families as unique communities of individuals.

We value integrity in an environment of mutual trust and respect.

We value honest and constructive communications.

We believe in life-long learning.

We accept our responsibilities as humble stewards.

We value courage in our programs and we are satisfied with quiet impact.

SAMPLE VALUES STATEMENTS:

Families take very different approaches to creating values statements. To help your family think about how it approaches its values statement, here are some examples of what some other families have chosen as their values statements.

Castellano Family Foundation

Our Values

INTEGRITY
Being honest and doing what we say.

EMPATHY
Approaching our work with an open heart and open mind.

SOCIAL CHANGE
Creating opportunities and access for those most in need.

FAMILY
Supporting the important role families play in caring communities.

COMMUNITY
Valuing, celebrating, and supporting a more just and caring local community.

The David & Lucile Packard Foundation

Our Values

INTEGRITY
The Board and staff will be open and honest with one another, the community, and Foundation grantees. We will encourage the highest possible standards of conduct and ethics.

RESPECT FOR ALL PEOPLE
The Board and staff, in all of their work on behalf of the Foundation, will show graciousness and respect to all people. The success of the Foundation depends on seeking out and listening to the ideas and advice of others.

BELIEF IN INDIVIDUAL LEADERSHIP
The Board and staff will provide and promote an environment of trust and flexibility that fosters and rewards the best in ideas and efforts. In grantmaking and other activities of the Foundation, the Board and staff will look for those individuals and organizations that are best able to make a contribution in their fields, and then will respect and support their leadership and ideas.

COMMITMENT TO EFFECTIVENESS
The Board and staff will identify unique and strategic opportunities to make a difference. They will evaluate their effectiveness and change strategies as necessary to achieve a greater effectiveness. The Foundation will take a long-term view and keep a commitment to selected areas that require this.

CAPACITY TO THINK BIG
The Board and staff will initiate and be receptive to ideas in which a large commitment of funds and/or time can make a unique and lasting contribution. The Foundation will operate in a way that ensures flexibility to respond to such opportunities.

Charles and Lynn Schusterman Family Foundation

Values

When our founders, Charles and Lynn Schusterman, began their philanthropic journey in 1987, they gave powerful expression to five core values that filled the home they built together and that continue to define our philanthropic agenda:

- A profound devotion to Judaism, the Jewish people and the Jewish State.
- A commitment to fulfill the imperative of tikkun olam (repairing the world).
- A commitment to providing all people with access to education.
- A deep affection for the citizens of our hometown of Tulsa, Okla.

A belief in forging communities rooted in inclusion, equality and diversity. Even as our philanthropy has evolved to meet the needs of an increasingly complex and interconnected world, we have remained as we began: a group of passionate people committed to helping others realize their full potential.

Morgan Family Foundation

Guiding Principles

The Morgan Family Foundation seeks to maximize the potential of organizations and individuals.

These are our guiding principles:

- Respect for all people and our environment is fundamental.
- Integrity guides our commitments.
- Collaboration makes us stronger.
- Grantmaking is a process grounded in continual learning.
- Grantmaking should empower individuals and build self-sufficiency.
- Improvement is always within reach.
- Generosity benefits the giver and recipient and should be encouraged in others. ■

GOALS AND MISSION

"To give away money is an easy matter and in any man's power, but to decide to whom to give it and how large and when, and for what purpose and how, is neither in every man's power nor an easy matter. Hence, it is that such excellence is rare, praiseworthy, and noble."

—Aristotle

Defining Your Family's Mission and Goals

BY VIRGINIA M. ESPOSITO

Congratulations! You are establishing a family foundation or fund and you've decided to share this privilege with family members. You are likely filled with the excitement of meeting and supporting passionate people and communities. You're ready to begin learning as much as you can to ensure you make a positive impact on the causes important to you. The opportunity and the possibilities are both energizing and daunting. And then the questions begin:

- Do I want to make a lot of small grants or choose a few large charitable investments?
- Do I see many future generations guiding this foundation or am I more interested in a limited lifespan where I do timely, critical work in a shorter span with people who know me?
- How will I know when I need staffing help beyond volunteer family members?
- How much do I expect to spend on that staffing and other things needed to administer the foundation?
- Do I want to welcome proposals in my priority areas or do I want to design my projects and issue requests for proposals (RFPs)?
- Oh by the way, what are my priority areas?
- I'm just getting started. What kinds of communications do I need to make available to those interested in our work?

- ➔ Whom do I put on the board: advisors; community members; family — and which family members?
- ➔ I love all my family. How do I make choices about who participates?
- ➔ I understand my personal financial investments but what are socially-responsible, mission-related, and impact investing?
- ➔ What is that "self-dealing" rule I keep reading about?
- ➔ Am I still excited or just feeling overwhelmed?

When foundation leaders approach me with a "laundry" list of questions like those listed above, I often reply with a question of my own: what are they hoping to accomplish? If I can understand their mission and goals, I am able to offer a number of possible answers to each of their questions — answers that can often help them get where they want to go.

But without the direction that comes with having a mission and goals, my advice becomes more like the response of the Cheshire cat in *Through the Looking Glass* when Alice needs directions but doesn't know where she is going: the road you take "doesn't matter."

Any one of the possible choices you face when answering the above questions require a sense of destination. Knowing your mission and goals illuminates the choices you make to help you achieve all your hopes for impact.

Since you've picked up this book, you are already earnest in your desire to do this work well. All of the questions above — and many more — are addressed in this volume. As you explore strategies for managing your foundation, some will instinctively feel "right" to you and you might want to give them a try. Other options may feel inappropriate to your circumstances.

As there are no one-size-fits-all answers, you will need a few guideposts to make reasonable choices. Beyond the legal and ethical requirements to which we all subscribe, your choices will reflect your motivations for establishing the foundation, your history with giving and volunteering, your values, and your goals for charitable impact and family participation.

Motivation

Why are you interested in philanthropy and community involvement?

It's important to begin this journey with a simple yet important question: what motivated you to take this step in the first place? You've already explored the personal and shared family values that provide the "foundation for your foundation" in the opening essay (Page 12). If you can take the time to understand and articulate those values, you will have the inspiration and tools you need to create that strong foundation. Once you determine your core values, there are other motivations you might explore.

For some, the decision to establish a private foundation or a fund comes about as a result of financial or estate planning. U.S. tax policy encourages private initiatives for the public good — and this policy is admired worldwide for its potential to engage individuals in making the world a better place. But we also know that tax planning alone is typically not enough to sustain the energy and commitment a family foundation requires. As one California donor/foundation founder once told me, "Taxes got me through the door but they didn't keep me in the room."

Even if estate planning was the primary stimulus behind your decision, your life experiences will likely provide additional motivation. What is it — in your character, background, and experiences — that prompted you to pursue a charitable goal (and will likely influence your choices along the way)?

In conversations with hundreds of donors and founders, I've found these founders most frequently mention at least one of the following six personal experiences as inspiration for their philanthropy:

1. **Faith and Spirituality.** Every religious or faith tradition includes some tenet urging concern for others. Whether referred to as charity, tzedakah, sadagah, love, or many other terms, traditions of faith call on those who share a spiritual heritage to give to others. Many of today's donors openly articulate the spiritual link between faith and their giving. Their giving may not be directed (or solely directed) to religious institutions or causes, but the link is strong just the same.

2. **Traditions.** Many founders talk about family traditions that shape their charitable conscience. One fourth-generation family foundation trustee/family member recalls her parents placing three boxes on her childhood bookshelf. Each box held an equal portion of her allowance: one-third for spending; one-third for saving; and one-third for charity. Her earliest understanding was that money had three, equally-important purposes and that you budget for giving rather than use what might be left over. A Texas donor talks about his family tradition of celebrating holidays by participating as a family in a volunteer, community-service project. Whichever traditions influence you, it is a valuable exercise to consider how these traditions shape your philanthropic personality. You might also consider how they can help you shape the charitable character of your children and grandchildren. It is not unusual for entrepreneurs and foundation donors to report that a family giving tradition practiced even before there was wealth in the family became a powerful influence.

3. **Mentors.** Most of us can point to people who had a profound impact on our lives. Grandparents, parents, aunts or uncles, teachers, colleagues, and neighbors can often provide examples and encouragement at important moments, counsel us through difficult situations, help us with a career move, or simply set powerful personal examples. Often, those who create foundations say that they were inspired by one or more of these influential people — many of whom did not possess great wealth of their own, but provided wonderful lessons in giving.

4. **Personal Interests and Experiences.** Many founders note that they became engaged in philanthropy because of a special, personally-important issue or event. For example, some founders have had a lifelong interest in the arts or a love of the outdoors. Others are influenced by an intensely personal experience, such as the death of a loved one or receiving a much-needed scholarship.

5. **Community Involvement and Volunteering.** Entrepreneurs who go on to become generous philanthropists often were active in their communities long before they had the wealth to make significant financial gifts. Some speak eloquently about helping at an animal shelter, volunteering as a docent at a museum or historical site, serving on a nonprofit board, or participating in a family Thanksgiving custom of serving food at a soup kitchen.

6. **Business Skills and Experiences.** Some new donors have their interest sparked by a business colleague who was already an active donor and who shared their enthusiasm and interest. This is becoming even more true in modern workplaces, which are more regularly becoming ready-made networks for philanthropic learning and support. One of the great opportunities of philanthropy is giving successful businesspeople a chance to use their professional skills and experiences for a very different bottom line.

What are You **Trying to Accomplish?**

During the past two decades, NCFP has interviewed hundreds of family foundation donors. While no two families are the same, we've found that many of them have similar goals for what they hope to accomplish through their foundations, Here are some of the most common goals:

➔ **Giving back.** Without a doubt, giving back is the most frequent response. For some, this means giving back in a universal sense; they have been fortunate and they hope to share that good fortune with others. For others, it means giving back to the community where the family lived and prospered. In such cases, the foundation's mission is likely to acknowledge and show appreciation for the family's — and therefore, the foundation's — hometown. Place-based giving may be affected in the future as families scatter and the logistical challenges of a common place-based mission multiply. Newer wealth has been built in a global economy so the idea of giving back to the home community, employees and customers included, may have to be interpreted for a new era of wealth creation.

➔ **Creating a vehicle for working with your family.** Some of the greatest advantages of choosing a family foundation include:

- The opportunity to accomplish something for and with your family;
- Instilling a charitable ethic;
- Promoting individual volunteering and giving;
- Balancing issues of great wealth and privilege with social concern and responsibility;
- Raising responsible, community-minded children;
- Beginning (or extending) a legacy of family giving that may play out over several generations; and
- Providing a place where the family can work together on issues of shared, great importance.

Families are intensely personal and complex. The decision to serve a foundation involves significant commitment — a commitment to a public trust and to an institution created as a result of public policy to serve the public good. The potential conflicts of this dynamic are obvious. But so should be the joys and benefits. The ongoing dynamism means ensuring the responsibility to family and the public trust is appropriately in balance.

➔ **Expressing your values and exploring your interests.** The values we profess and cherish guide our everyday decisions and actions. Personal interests often drive our career choices and how we spend our free time. Philanthropy is a remarkable opportunity for those who wish to give practical expression to their values or to explore a special interest beyond the workplace or a hobby.

➔ **Avoiding taxes.** Yes, among all this talk of public purpose and charitable hopes, there are founders who come to this work principally as a tax strategy. And if it starts that way, isn't our tax policy doing exactly what the framers intended? Those trying to start a philanthropic tradition in other parts of the world often envy the fact that America's system encourages such participation. But, as noted above, although they are an effective catalyst, tax savings are not enough to sustain a family philanthropy. Although tax benefits may be sufficient to keep the donor who enjoyed the tax advantages involved, other motivations are required if there are to be succeeding generations.

➔ **Using your talents and skills for a different purpose.** Entrepreneurial donors may be very interested in sharing skills and rewards for charitable purposes. Certainly, many modern donors — particularly those who have come out of the tech industry — have exhibited that tendency. One of the many unsung gifts of tech donors has been their real appreciation for the back-of-the-house costs nonprofit organizations face. Donors who know the value of computer systems, Internet access, websites, and social media are more likely to understand the critical importance of making grants for operating costs.

➔ **Supporting the people and institutions that have been important to you.** Your charitable heart and past history of giving do not go away when you establish a formal, legal structure. Many donors are involved in their communities, houses of worship, or alma maters long before they decide to create their foundations — and they create their foundations specifically to frame or provide a structure for their direct, personal giving. Consider the new foundation donor who makes an early grant to her university or the donor who makes a large gift to the nonprofit homeless facility on whose board he has served for many years. When you establish your foundation, it's a good time to consider if any of these lifelong commitments, people, or institutions will continue to receive grants from the foundation or from you personally. This consideration helps to determine if you have "legacy grantees." Not only do you want to know how to handle future gifts to such grantees but trustees who succeed you definitely want to know if and how they will continue to honor your wishes regarding these long-term grantees. *(See "Things We Wish Our Founders Had Told Us" on pages 60–61 for more questions you may wish to answer.)*

Goals

Now that you've considered your values, motivations, and your early thoughts about possible accomplishments, you are ready move on to developing a fuller understanding of your aspirations and commitments. To do this, it is helpful to determine your goals in three primary areas:

➔ Goals for Charitable Impact
➔ Goals for Your Own Participation
➔ Goals for the Participation of Family or Others

Spelling out solid, well-articulated goals will help you answer a number of important strategic questions. Which structures, advisors, office space, and staffing will you need and want? With your values, motivations, and primary goals in place, you are well positioned to take on the questions that come up. First and foremost, what do those goals suggest when it comes to your mission?

It is important to do some of this thinking on your own, perhaps with a facilitator/guide. Sooner or later, you will have to communicate your plans to those who will help you achieve results. But how soon is too soon? If you know you want to involve your family or others in this work, you could get them involved early on. By having their ideas about

"One day Alice came to a fork in the road and saw a Cheshire cat in a tree. 'Which road do I take?' she asked. 'Where do you want to go?' was his response. 'I don't know,' Alice answered. 'Then,' said the cat, 'it doesn't matter.'"

Lewis Carroll, *Through the Looking Glass*

goals and mission up front, you build ownership of and enthusiasm for the work to be done. You also model the process you want for your foundation: actively working together on all foundation matters. If you are more comfortable making the founding decisions on your own, be prepared to help others understand them or help them know what is on the table and what no longer is.

Goals for **Your Charitable Impact**

You likely have some ideas about the kinds of grants you envision making. You may even choose to make a few grants to test your experiences and results before you finalize and communicate your mission and goals. But you can also consider other key steps to find clues that will help you make decisions about your mission and the impact you seek:

➔ **Review Your Charitable History.** As mentioned above, the causes and organizations that have been important to you for years not only don't disappear with the creation of a foundation, they provide key clues to what you might want to do going forward. A few places and things to look for these clues:

- Consider where you've volunteered. Were you a youth sports coach just while your child rotated through the system or does youth development, health, and mentoring mean something more long lasting to you?
- Review all your past gifts to develop a list of those the foundation will take on. If some gifts ultimately prove to be outside the foundation mission, you may choose to continue to fund these causes personally.
- Has your giving been oriented more to place (your hometown, your grandparents' hometown, where the business is based, etc.) or to issues (causes that have touched you or where you're impatient to begin to make a difference)?
- Are you drawn more to trusted institutions or dynamic leaders?
- Have you successfully supported the giving passions of others? Mentors can guide our philanthropic journey much the same way as they help guide our professional career.
- Do you like sustaining good work or funding new projects?
- Do you value general operating support?

➔ **Review Your Family's History.** Researching the family's history can be a deeply inspiring experience for family members and others involved in the foundation. Many families take the opportunity afforded by the formation of the foundation to look back at the past to inform the grantmaking to come. Families have taken field trips to ancestral communities, looked closely into antecedents or the founder of the family fortune or philanthropy, and charted their charitable histories (often including these histories on the foundation's website). Rather than conducting a tedious exercise in dusting off ancient history, families who have undertaken such projects found a stimulating, reinvigorating sense of purpose, and a new vitality of foundation engagement.

The benefits of chronicling family philanthropic history extend far beyond enlivening family engagement and refining mission development. These projects have the potential to inform the public about the contributions of family giving, ground future generations in the aspirations of founders, and inspire potential donors to get more involved in philanthropy. To support this interest, the National Center for Family Philanthropy has partnered with The History Project, an Oakland-based nonprofit, to help donor families recount key moments in and the contributions of their giving history.

→ **Forever or for now?** NCFP research shows that more people are considering or reconsidering whether a perpetual foundation is for them. This is not because there is anything inherently wrong or right with either the perpetuity or limited lifespan choice. Each choice begs for specific strategies in order to make them work. Many of your early decisions will benefit from some clarity about how long you hope the foundation will exist.

Goals for **Your Own Participation**

It is also important to understand your own personality and preferences — both as an individual and as part of a team. Self-awareness isn't a requirement but it can help you avoid missteps in how you reach out to others — particularly your family and your internal foundation team, network of advisors, potential grantees, and other potential donor partners.

As you conduct your self-assessment, you might consider the following:

→ **How "hands on" are you?** Many entrepreneurs are successful because of their careful attention to detail. They see every aspect of their business through and they are involved in every decision. Most "first-generation" foundations report that founders continue that hands-on approach when they take on their role in the family foundation. Other founders like to provide general guidance (set policy, review procedures, take part in voting, etc.), but are content for others to play an equal or even more active role. Still others prefer a hands-off approach and are content to see others with the passion, commitment, and ability take the lead in shaping the foundation's future. How much initiative do you want from staff, fellow board members, and fellow foundations? Are you well known for being a go-it-alone type, happiest when others rubber stamp your choices? Understanding your own style — with candor and integrity — can have an important effect on early management and how others learn and participate.

→ **How tolerant are you for structure and process?** Before you can make choices about advisors, staffing, working with donor collaboratives, and other related issues. you need to be candid about how much patience you have with process and the participation of others. Are you more instinctively methodical or spontaneous?

→ **Are you happiest when you tackle something on your own — testing, failing, retesting until you succeed?** Or do you prefer "group think," where give and take contributes to the most satisfactory outcome? Consider:

- Do you enjoy collaboratives and partnerships? You're embarking on a vast learning journey — do you want fellow travelers?
- Are you more comfortable with a formal or an informal structure? Are you quick to decide or do you prefer some process that tests options?
- On the spectrum of responsiveness and initiative, where do you fall? Does receiving proposals generated by nonprofits operating in your priority areas fill you with inspiration and a sense of possibility? Would you rather investigate and identify the work you want done, develop a request for proposals (RFP), and invite interested and capable organizations to apply? Or do you prefer something in between?
- Will your decision making be donor driven, consensus-based or democratic?
- How much time do you realistically have to give to the work of starting and maintaining the foundation?
- What is your risk tolerance? Do you see yourself being as bold a grantmaker as you were in business? How much certainty do you need before you are ready to act? Are you comfortable with R&D (research and development) and, therefore, likely to be interested in new, untested approaches? Or, do you prefer finding proven strategies and funding them to capacity?

Develop a Donor **Legacy Statement**

After you have had a chance to think about your values, motivations, and goals, consider writing a Donor Legacy Statement. Such a communication can be written, audio recorded, or videotaped — or a combination of these.

A Donor Legacy Statement is your opportunity to communicate to those who will work with you — and those who may provide leadership in the future having never met you. The statement may speak to donor vision, the passion behind the idea for the foundation and its work, the values that transcend family difference, and the deepest hopes for the foundation and the giving family.

Some entrepreneurs may be uncomfortable with such activities and they might not be part of a family culture that promotes such conversations. However, a simple written statement — however informal — can be a source of inspiration and commitment among extended family members and others, now and well into the future. As you go through this process, you may choose to review statements from other foundations as inspiration. These samples may provide you with ideas for content and format but, ultimately, your statement will be most effective if it is uniquely your own.

"*Providing the guidance of a statement of donor intent is not the 'dead hand of the past' as many claim. It is …a 'helping hand' that provides insight into the values, vision, and purpose of the foundation.*"

Charles Hamilton, Founder, The Hamilton Foundation and Editor, *Living the Legacy: The Value of a Family's Philanthropy Across Generations*, 2000

Writing a Letter to the Family

I always encourage the founding couple to take the time and make the effort to write a lengthy statement, almost like a letter to the family. I advise them to state their reasons for starting the family foundation, and their specific goals and objectives, and describe the results they would like to see for their community and for the family. They should also make clear the types of philanthropic interests that are of no interest to them.

I suggest that they go through several drafts and at least a week to give them adequate time to reflect, consider, and make changes. If the children are willing to honor the wishes of their parents, and most are, the children have clear guidance as to what their parents really wanted. They receive a magnificent benefit from their parents — a gift, really — which is that they can thoughtfully carry out the wishes of their parents. That is more than a gift, it is a blessing, because the children feel good about doing it. The children also meet interesting people, learn, experience and enrich their lives. Only after doing the work for several years will they fully appreciate the magnitude of the "gift" from their parents.

I had a client whose father established a family fund at The Cleveland Foundation. Of his two sons, one became interested in carrying out his father's wishes, and the other was not interested. The one who is interested lives in California and comes to Cleveland at least two or three times every year to ensure that the goals his father set are being pursued and accomplished. His affection for his father and his loyalty are deeply touching to all of us who understand what he is doing. Intent can create a connection that lasts the rest of your life. In philanthropy, you will meet wonderful people, you will do beautiful things, and you will gain great satisfaction. For this man, the happiest time of his life is to see the results of his father's wishes working well.

Mal Bank, former general counsel, The Cleveland Foundation

Goals for the **Participation of Family and Others**

Once you've had a chance to consider the questions above, particularly those that relate to the kind of team you'll need, it is time to consider who will be part of that team and how you'll want to work together.

Thinking about goals for participation is urgent now because you are ready to develop a mission statement. You may want to think of your team in terms of who might help you craft that statement as well as those who might be implementing it.

Founders, whether an individual or a couple, are usually referred to as the First Generation (G1). Their children represent G2 (the siblings generation), and the grandchildren of the founder are the "cousins" generation and comprise G3. Beyond family, many foundations turn to others to be part of the start-up team. These may include legal and financial advisors, work colleagues, program experts, and representatives of the communities to be served.

Your choice to establish a private, family foundation suggests that you hope to have family members play a strong role. If that is not your intention, you might instead choose another philanthropic structure.

For example, you might instead choose to be a donor advisor to a fund within a public foundation, like a community foundation or financial institution. You could endow a favorite nonprofit organization. You might still establish a private foundation but involve business colleagues, friends and others such as experts in your priority giving area. Many other possibilities are available to you; each is rich in potential for helping to achieve your goals.

Considering family early is a critical prelude to determining mission. You may have determined to set the mission on your own and invite family to join you in that pursuit. Conversely, you may want to work with your family to determine a shared mission — one of importance to all with maximum buy-in.

You may be most excited by the possibility of sharing the joy (and the work!) of the foundation — along with the decision-making — with your family members. That might be a fairly straightforward process if you have a few adult children and theirs is the only participation you are considering.

But for other founders, family may be a large, complicated, diverse, and dispersed group. Even for the donor with the small family, if you intend the foundation to exist beyond the second generation, questions of family participation need to be answered and, ideally, answered early. But before you begin to pick board and staff from within the family, there are more critical questions than whom. Specifically, why and how.

Why do you want to do this work with your family? The answer to this question may seem obvious to you but it might not be to your family members. They will benefit from knowing why this is important to you and why you want them, individually and collectively, to do this work with you. Are they being asked for what they are expected to bring to the foundation (time, commitment, expertise, judgment) or solely as a member of your family? Founders have learned that the context for the invitation and the way that context was communicated played a big part in the success of the family charitable enterprise.

Does your family know you are creating the foundation and that you want them involved? A donor once called an advisor for help with his donor legacy statement. He spoke lovingly and eloquently about his pride in his family and his eagerness to work with them in such a special way. After some time, the advisor asked the donor if his family knew he was setting up the foundation. After a long pause, the donor replied, "No. Do you think I ought to tell them?" If you have sincere enthusiasm for working together, consider involving them as soon as possible. You don't have to give up your opinions and preferences, but you may benefit from the insights and experiences of those who love you and know you well.

Many founders report that they were asked to name trustees before they thought about what they needed in terms of stewardship and support. This is as true of family members as it is of those beyond the family that you may want to engage in the conversation about foundation mission. You already may have formed opinions about whether non-family members will serve on the foundation board. Engaging the perspectives of those you respect is a valuable and exciting part of discerning your mission and program strategy whether or not they are or will ever be board members.

To that point, in addition to why you want to involve others in this work, consider how they can be involved. Too many founders create personal and institutional stress by equating participation with board service. Embracing others (in the family and beyond) in conversations during the start-up period can result in more informed and meaningful work and a stronger statement of mission. Ad hoc advisors, interested family members, community panels and presentations, and consultants/fellows are available to you as you delve into the focus and content of your giving. All offer ways that critical voices and expertise can be sought without the requirement of a board position.

(For more on board selection and responsibilities, see the Governance chapter on page 100.)

Creating a **Community of Concern**

In surrounding yourself with the expertise, encouragement, and energy you'll need to fulfill your charitable purpose, family foundation trustee David Dodson says you are "creating a community of concern."

As you create your community of concern, think about all the possible voices that can add to both the quality of the process and your ability to serve your community:

- **The founder.** While seemingly obvious, few founders actually think about the role they want to play, particularly with regard to others. How will power and responsibility be shared? How well understood and articulated are your intentions? What are your expectations for adherence to your giving patterns and interests after you step down? Who will chair the foundation board? What sort of leadership plan — including identifying future leaders, training, and transition planning — would you like to see?
- **Spouses.** Frequently, a donor couple rather than an individual donor starts a family foundation. If that is the case with your foundation, how will you work together in leadership roles? Will you serve as equal leaders or will authority rotate? Are intentions and plans jointly established? What about succession? And, a sensitive and difficult question: what happens in the event of divorce or death?
- **Children.** The decision to involve children in the foundation may present both the most complicated and rewarding issues you'll face as you consider foundation leadership and involvement. As parents, we want to ensure that our children have a good home, a good education, and some measure of financial well being — the good things. But we also want to ensure that we do what we can to raise good children. Founders speak movingly of their hope that the foundation can provide an experience that fosters generosity, community involvement, empathy, and responsibility.

All these good intentions can be realized, but success is most likely if children are well introduced to the foundation and the family shares the goal of community service. At what age should that introduction occur? Opportunities abound for introducing children to giving and volunteering beginning in early childhood. They can appreciate the message of *The Giving Tree*, understand why you're leaving for the weekend to attend a foundation retreat, participate in a community service project or go along on an age-appropriate site visit... the possibilities are as endless as your imagination and commitment. Begin when you think it appropriate for your family, but don't wait too long.

Between the ages of 18 and 35, your children are working on their educations, establishing careers, and starting families. Free time and vacation days are in short supply. Build a community conscience in them early, and work with them to determine if their busy schedules and a role in the foundation can peacefully and satisfactorily coexist. If that's not possible, let them know they'll be welcome when their circumstances and interests change.

Sadly, it is all too common that adult children of foundation donors only "discover" the family foundation and their responsibility for it — a recipe for confusion, distress, even resentment — in their 40s and 50s.They may even be dealing with the death of a parent. What may be most sad is the opportunity missed; the opportunity parents and children might have shared in building a tradition of charitable service.

Will all your children serve? Will there be opportunities to inform and involve them beyond board service? Will there be a board qualifications/expectations process or will all children serve based on birthright? What about adopted or stepchildren? And, again, a related but painful question: how does the philanthropy affect other financial plans for or expectations of the children?

Open communication about money matters can prevent a situation where adult children feel anger that their "inheritance" was the philanthropy rather than a personal bequest, and they didn't know about it. Visiting troubling issues of power, money, and poor communication on a nascent foundation distorts and detracts from the public purpose and will likely torpedo the founder's hopes for a family endeavor.

- **Parents.** In an era of great fortunes made by the young, founders may wish to involve family, but have not yet committed to a partner or had children. These donors often involve their parents in the process. Parents may have long histories of community involvement, they may have retired and have more discretionary time available for philanthropic initiatives, and philanthropy may represent a wonderful new way for an entrepreneur and his or her parents to work together and get to know one another in a new, rewarding way. In such cases, again, role clarification is critical because the normal parent/ child power dynamic may be altered.
- **Other family members.** In some cases, donors reach out to siblings, nieces, nephews, and cousins to involve them in the giving. This, too, can be a rewarding experience. Issues of qualifications and responsibilities are much the same as they are for your children. A particular difference may arise in cases where the only significant family wealth is the founder's and that wealth will pass only to the founder's direct line. Then, sensitive issues can arise: power; prestige; even the ability to take time off and pay one's own expenses to participate in foundation meetings and activities.
- **Legal, financial, and program advisors.** The counsel offered by your circle of advisors is key to success. But what role will they play? A board role can be enormously helpful as advisors lend the expertise that strengthens your deliberations and builds your confidence. Advisors can also dominate if they use their expertise to "shut down" discussion. All new donors need expert legal and financial advisors. Program advisors can help by adding expertise in the areas to be funded. Talk candidly with your advisors about your relationship and your need for their guidance. Determine if the boardroom, an advisory committee, or a consultancy/contract is the best way to access that guidance.
- **Friends and colleagues.** An increasing number of donors engage business colleagues and trusted friends early in their philanthropy. Respect and trust gained over the years become important sources of encouragement and support.
- **Community representatives.** As a foundation donor, you have the extraordinary chance to engage those the philanthropy will seek to serve. If you're working in another part of the country (or world) or with a community or population group with which you are unfamiliar, the voices of your constituency groups can be powerful: keeping you both informed and sensitive to special circumstances and new developments.

Reflections of a **Family Foundation Trustee**

David Dodson, a longtime trustee of the Mary Reynolds Babcock Foundation, a family foundation in North Carolina, and a close observer of the Irwin-Sweeney-Miller family giving programs in Indiana, observes that a family's values and motivations are critical to the success of a family foundation. But, he continues, the purpose of family foundations should not be to simply perpetuate a family's interests. Instead, these institutions are most successful if they strive to be of value to something beyond the family circle.

As a result, Dodson advises family to commit to and support causes and organizations that reflect their passions.

But it doesn't end there.

Dodson encourages creative family foundations to ask themselves how they can take what they care about and use it to build a community of concern that is alert and responsive to changing circumstances. Often, it is most logical for a family to explore what it knows and loves and match those passions with the needs of the community it is looking to serve.

Dodson notes that the Miller and Babcock families don't seek to perpetuate old ways of doing things. Instead, each generation that becomes involved in the foundation strives to understand the needs and opportunities facing their communities of interest. The issues may change over time, but the family foundation continues to work on these issues with a spirit of caring and compassion.

With that in mind, families can build their giving not around their own interests, but rather around the community. If the community is at the center, it can surround that core with a vibrant family circle. Dodson says that families that operate in this way are more likely to be curious and compassionate in identifying ways to use their assets.

Those assets may extend beyond their financial resources and also include advisors and networks outside the immediate family. He cites his fellow Babcock trustee, Carol Zippert, and her assertion that family foundations can include those who are members of the "family of blood" and those who are members of the "family of the heart" — related by interests and values but not genealogy.

Suggestions for Involving Others in the Family Foundation

- **Be clear about the roles and expectations each person will play.** Writing down roles and expectations and making them understood — even before the invitation is extended — can save confusion and pain later on.
- **Consider developing a statement of board qualifications and expectations.** The universe of people who might be invited to serve on a board is vast. It may not seem like it in the earliest days of the foundation, but it gets larger as time goes on. Board qualifications can help family members and others understand what they must bring to the table. Board expectations can help them understand what they must do in service to the foundation.
- **Plan early.** It is often easier to determine whether your children's spouses will be eligible for board service, or whether to set age limits for board membership when neither possibility is in the immediate offing. It becomes more difficult when you're talking about real possibilities and real people. If you are forced to create a policy in the face of an immediate need, you don't have the chance to consider thoughtfully and objectively what's in the best interest of the foundation. At that point, the decision becomes personal, awkward, and potentially painful.
- **Visit the question of managing both your hopes for your family and the giving.** Reinforce the foundation's responsibility as a public trust — early and often. Appointing family members to the board can be the first opportunity to discuss how individual family members' interests might compete with the philanthropic interests of the giving program.
- **Consider setting terms and a rotation policy for service on the board.** Such a policy can help to renew the giving program, refresh the participants, and allow many more people to participate.
- **Recognize that there are lots of ways others can be involved beyond board service.** Committee membership, site visit participation, and advisory boards are just a few of the creative ways founders have engaged a creative circle. If participation in the philanthropy is perceived to be limited to board service, sheer logistical constraints will force you to disappoint many people. Moreover, you'll also miss the opportunity to engage a range of thoughtful, experienced voices.
- **Consider engaging an experienced family foundation consultant to help you and your board work through these issues.** Working with someone who is familiar with foundation practices, and sensitive to family dynamics and process, can help you to get off to a good start, set the stage for the quality of your future interaction, and participate fully in the conversation.

Mission Statements

With a solid handle on your values and goals, moving to the creation of a mission statement is an easier, if not an easy, process. Most family foundations have a mission statement. Whether or not you choose to accept or seek out proposals for funding, a mission statement communicates to all the impact you want to have.

Some founders prefer to prepare their mission statements on their own in the early stages of foundation formation. Some prefer to do this work with early advisors or board members. Still others prefer to offer some general guidance (often through the Donor Legacy statement) and leave the specifics to be crafted by successors.

It is not uncommon for older foundations to have very broad mission statements. Many famously wrote they existed "for the good of all mankind." Over time, foundation boards can refine these general statements to be more specific about desired vision and impact.

On the other hand, some founders set out very specific statements of mission. In rare circumstances, such specificity has proven to be impossible to effect over time. Early trusts that instructed their successors to support the boys who lit Boston's street lamps or some other such outlived purpose found themselves having to go through a complex legal process to amend the donor's intent. These experiences remind founders to consider mission in terms of their hopes for perpetuity.

Why Have a Mission Statement?

Every aspect of foundation stewardship benefits from a well-crafted mission statement. Mission statements can:

→ **Give guidance to trustees.** As the governors, policymakers, and guardians of the foundation, trustees need a basis for developing a long-range strategy for the foundation. The mission statement provides that. A mission statement ensures that the foundation stays in focus, on task, and supported with appropriate resources.

→ **Bring focus to grantmaking.** The core reason for a mission statement is to direct grants toward a particular social change, research activity, or other programmatic undertaking.

→ **Provide a framework for management.** Whoever manages foundation operations should start with a clear idea of the overall purpose of the enterprise. The mission statement offers a framework for determining management and administrative activities that support your mission and goals.

→ **Drive portfolio investment.** Cash needs, length of investment terms, program-related investments, and other dimensions of the investment strategy work best for foundation interests when they are tied directly to the time horizons, grantmaking levels, and policy outcomes expressed in the mission statement.

→ **Shape communications.** Founders have wide latitude deciding what and how much to communicate about foundation and grantee activities. Communications programs can both interpret and advance the foundation mission.

What a Mission Statement Does

The mission clarifies what the family hopes to accomplish through its grantmaking, and in what areas it will make grants to get there. All founding documents for charitable vehicles include some sort of statement of purpose; the actual term can vary from state to state. The law does not require a mission statement separate from this statement of purpose and many family philanthropies don't have one, especially in the formative years when the original donor is at the helm. The mission does state the purpose of the foundation or fund, but it goes far beyond that basic function.

The mission helps the family set a course that transcends generations. Older family members must ultimately hand over the torch to the young. Free and open conversations about the mission can give all the generations a chance to build upon the original donor's legacy, as well as express their hopes for the future and their vision for the family's philanthropy.

The mission enables the foundation to see where it is deviating from its expectations and goals so it can make course corrections. By including several goals in the mission, the family foundation can act more strategically, building in review of its goals in three or five years to see how far it has come, and whether it needs to revise its thinking.

The mission identifies gaps that the foundation or fund can fill. Most family foundations are small, with assets of less than $5 million. Taking time to think and talk about mission can focus the family on applying their resources where they can do the most good.

The mission enables the organization to be more strategic. For example, a mission can allow for grantmaking through collaboration and matching grants, thereby harnessing the power of larger organizations and compounding the impact of a family's grantmaking.

The mission ensures that the family members are truly in sync. Family trustees sometimes think they're in agreement when they may not be. Discussion around the mission early on can reveal and help reconcile important philosophical differences.

The mission strengthens the role of the family in the foundation. As family foundations grow and, sometimes involve non-family members in the process, some families fear they will lose the family legacy and influence. By devising a clear mission, a family can assure that the foundation is headed in the direction that's right for them.

Key Questions in **Developing a Mission Statement**

- Who will participate in conceptualizing the statement?
- Who will manage the process of developing the statement?
- What other voices might be sought, such as grantees, the community, and other family foundations?
- Who will write the draft statement?
- How will editing and finalization be conducted?
- How will the statement be communicated to family members?

Developing the Mission Statement

How Specific? How Early?

A mission statement not only reflects the founder's values and interests, it reflects how early and how specific the foundation feels prepared to communicate its intentions. It can be cast in the founder's voice, the family's voice, or the foundation's voice. Some founders include the community voice. Voice and clarity of purpose can ensure that the statement offers momentum to the foundation during its early days and gives it the best chance to thrive over generations.

Experiences of family foundations demonstrate the diversity of approaches to determine the voice, spirit, and style of the mission statement.

"We're going slow on developing a grantmaking focus," said Alison Goldberg, trustee and daughter of the founder of the Robert P. and Judith N. Goldberg Foundation in the early days of that foundation's existence. "Why? We have young family members, non-family board members with different interests, diverse interests in general, and very different political perspectives. We're experimenting, feeling what's right, and learning from each other."

The Rockdale Foundation in Atlanta, Ga., also reports having a deliberately broad mission early on. Then executive director David Weitnauer noted that "this left room to experiment and learn from our grantmaking. After three years of experience, we conducted a strategic planning retreat and developed a more specific mission statement." Two years later, the foundation conducted another retreat and made even more refinements to the mission.

Elliott White Springs' hopes, values, and intentions were clearly defined from the beginning. He knew exactly what he wanted to do, well before establishing his family foundation. Early in his career as a textile magnate, he sought ways to improve the lives of people in upstate South Carolina, thousands of whom had worked in his mills. In the midst of the Great Depression, he created a nonprofit organization to finance college education for local high school graduates. At the onset of World War II, he founded the Springs Foundation (now known as the Springs Close Foundation) to "promote the general welfare of the residents" of Lancaster, Chester, and York counties. The foundation continues this mission as a vital philanthropic force in the region.

"It's important to give in an area where you have some special interest and passion."

— Thomas Kubiak, Founder, The Oliver B. Merlyn Foundation

Accommodating Difference

Family foundations benefit from the passions and loyalties of the family and family members. Such passions sustain grantmaking through good times and bad and, quite often, ensure that loyalty to communities, causes, and grantee organizations is strong. But passions are not necessarily shared; a mission statement based on shared vision can be difficult to achieve. How much disagreement you are willing to accommodate is a key consideration in drafting your mission.

Some family foundations believe the mission statement should reflect the donor's hopes for impact and it is that overarching vision that guides decision-making. All foundation priorities and grants are products of that vision and a shared board commitment to what will be done to pursue that vision. Their mission statements are written to guide what the board collectively believes to be in the best interests of the foundation over time. Their missions may be complemented by a vision statement that articulates, sometimes in very measurable terms, the ultimate impact they hope to have. Such foundations may even have a requirement that prospective board members are eligible for service insofar as they are supportive of the stated mission.

For other family foundations, particularly in the first and second generations, inviting the interests of all participants to shape the grantmaking agenda allows the foundation to experiment, learn, and support family participation. These foundations may start with a more general mission that evolves over time. Board members often come to realize that they are dissatisfied with a scattershot approach even as they value the organizations they are supporting. At that point, the board may re-consider the expectations they have for their grants and look to a more focused, common approach.

When Jerry Taylor and Nancy Bryant set out to organize the Jerry Taylor and Nancy Bryant Foundation, differences in view about mission arose. Gerald wanted to address education; Nancy was interested in eldercare, and their son, Galen, was interested in helping immigrants get started. It fell to Nancy to iron out the differences and she went to work gathering information, talking to people, and educating herself. She worked out a multi-purpose mission with a discretionary grantmaking arrangement that proved to work well.

Like the Taylor/Bryant family, some families structure their grantmaking within specific, but very different, fields of interest. The fields of interest are determined most often by individuals or, occasionally, by branches of the family. Others have a quite focused mission but complement that with a discretionary grantmaking program that invites family members to support personal interests while advancing the core, shared mission. Such a system keeps the focus on core mission but takes the pressure of personal pleading off the table with the discretionary grants. NCFP's Trends research shows that about 85% of family foundations allow some level of discretionary grantmaking. (For more on these grantmaking structures, see the Grantmaking chapter on page 200.)

Starting out with a broad mission that allows grantmaking to be determined by individuals or some other family segment (branches, for example) works most often only in the first and second generations. In later generations, accommodating individual interests is difficult if not impossible. By the third generation and beyond, the sheer numbers of potential participants along with differences of geography, point of view, and program priorities become so striking as to make it impossible to do anything but work toward a shared mission. Further, offering discretionary grants, especially to family board members, may exacerbate tensions about who gets to serve on the board.

The result can be a founding board mission statement that will likely evolve over time, although it continues to be grounded in the founding values and vision.

Creating the Statement

Approaches to drafting the mission statement are as varied as family styles. One founding couple might write a few thoughts out over an informal conversation. Another will convene a boisterous family meeting and, even though everyone talks at the same time, exciting ideas emerge.

Some ideas for the drafting process offered by family foundations include:

- Holding a retreat at a place of some historic importance to your family, a home, or a conference center. Choosing a location other than the place where other business is usually done can provide a setting more conducive to creative thought. The retreat can be a day or more, depending on what you want to achieve and how much your family can make available. The goal is to create an atmosphere of trust in which family/board members can focus on a subject of such importance and consequence;

- Creating a needs assessment of your region or areas of interest. It can be helpful to know what the community needs are, who is funding what, or how a critical issue can be addressed. Similarly, if you have an idea about what you would like to fund but little knowledge about how best to approach it, commissioning research can inform your mission and your grant choices. (See box on the John M. Belk Endowment's strategic planning process on page 49.)

- Appoint the founder, a family member, or a trusted outside person as discussion leader or facilitator. This person should be skilled in navigating complicated conversations and, perhaps most importantly, not avoid conflict. Conflict can hone a great idea or, if left to simmer, cause ongoing tensions. The trusted facilitator may or may not begin by interviewing participants ahead of time and may even offer a couple of possible statements for consideration;
- Consider asking a professional facilitator, ideally one experienced in working with family foundations, to help the family develop its views and ideas. Again, such a consultant may interview all participants ahead of time, whether or not a proposed draft is offered;
- Try to keep everyone, including members of different generations, involved in the process. Grandparents can often be an inspiring and mediating force between parents and adult children. These experiences can be motivating both in terms of interest in the grantmaking and in working in a family enterprise. For all ages, but perhaps younger family members particularly, the experience is an important learning opportunity, seeing what is required of mature adults dealing with complex, emotional and value-rich issues that are consequential for the whole family and the communities and causes to be served.
- Have one person or a small group draft the mission statement. Writing by committee can be frustrating. However, keep everyone informed of the process of developing the statement. Recognize that it is unlikely that everyone will be perfectly happy with all the wording but be prepared to discuss why some phrasing was chosen over others. The mission statement will start in the founder's vision and dream; it works best as the practical articulation of that dream. Since many feel an emotional insight into what would best serve the founder's dream, it is likely that attachment to language will be deeply felt and possibly heated.

When we were starting up, we organized a family retreat for my parents, my husband and myself. We hired a facilitator to guide the family through the process of developing a grantmaking program. We asked our parents to describe the reasons why they wanted to create a foundation, and we made an audiotape of my father's remarks —this was very wonderful. His words shed light on what's important to him, and they help other board members to focus. His remarks also will be helpful for future generations.

— Michele Goodman,
J.W. & H.M. Goodman
Family Charitable Foundation,
Hillsboro, Ore.

Elements of a **Mission Statement**

The elements of a mission statement are entirely up to the founder and family. Many family foundations combine some or all of the following elements with the Mission Statement.

- History of the family: its origins, values, patriarchs and matriarchs, business, interests, public service, traditions of philanthropy, etc.
- History of the foundation: founder, when founded, funding source, etc.
- The field of interest of the foundation (education, environment, etc.) and what the foundation intends to accomplish.
- Program focus and specifics of where grants are targeted.
- Key goals and desired outcomes.

How Much to Include?

As mentioned earlier, some foundations believe brief is better. A few examples include:

1. ***The Sobrato Family Foundation***
   "Our Mission: Make Silicon Valley a place of opportunity for all its residents. The Sobrato Family Foundation advances the Sobrato Family's collective philanthropic interest by promoting access to high-quality education, career pathways, and essential human services."

2. ***The McCune Foundation***
   "The McCune Foundation supports non-profit organizations that advance the quality of life for the people of southwestern Pennsylvania by fostering community vitality and economic growth to improve the region for current and future generations."

3. ***The Max M. & Marjorie S. Fisher Foundation***
   "The mission of the Max M. and Marjorie S. Fisher Foundation is to enrich humanity by strengthening and empowering children and families in need."

Creating **Your Splendid Legacy**

The quality and content of your mission statement is absolutely essential to your grantmaking, relationships, management, and communications. It may be, however, that the process of crafting is just as important: to your governance; to sustaining effective family participation; to your progress as a learning organization; and to your potential as a force for good in your areas of concern.

While your values and statement of those values may be the constant in your arc as an evolving family foundation, the mission statement may benefit from renewal — perhaps every five years or so. Not only will the re-examination ensure you are working to your goals with the outcomes and impact you expected, it will benefit from new knowledge and experiences. You will also revitalize your board, staff, and the family; ensuring that those who guide the foundation stay as fresh, committed, and excited as those who created the foundation.

Finally, a thoughtfully considered mission statement ensures that your Splendid Legacy — whether you created it or sustain it — continues to be a force for good.

—This chapter incorporates earlier work by Joseph Foote.

"Democracy does not give the people the most skillful government, but it produces what the ablest governments are frequently unable to create; namely, an all-pervading and restless activity, a superabundant force, and an energy which is inseparable from it and which may, however, unfavorable circumstances may be, produce wonders. These are the true advantages of democracy."

— Alexis de Tocqueville

From Founder to Values to Mission to Strategy: Creating the John M. Belk Endowment

The John M. Belk Endowment was founded by the successful retail entrepreneur and former mayor of Charlotte, N.C. After his death, Belk's daughter and only child, M.C. Belk Pilon, set out to identify the mission and program priorities that would appropriately honor her father's values and lifelong charitable interests.

She began with numerous conversations with those who could help her best articulate her father's values. John Belk was well known and respected for his commitment to personal values that guided his professional and civic pursuits.

From there, she factored in both his longstanding commitment to higher education and his concern as an employer that North Carolina always have a robust workforce capable of earning family-sustaining wages. Reflecting her own as well as her father's values, she knew that, whatever the Endowment would fund, it would embrace the state's diverse population. After all, her father had been Charlotte's mayor during the tense period of school desegregation.

Next, she called in David Dodson, president of MDC in Durham and designer of MDC's foundation strategy process, *Passing Gear Philanthropy*. David worked with M.C., her fledgling board and new executive director to develop a plan for advancing the JMBE goals to improve access to and completion of a post-secondary credential and the development of a workforce ready to take on well-paying North Carolina jobs. MDC also conducted the research critical to understanding the economic and academic challenges likely to influence JMBE grantmaking.

M.C. and the foundation's executive director convened learning sessions with colleagues, educators, state and local government officials, community members, and others to make sure that had the best possible advice and were on the right track.

With their mission and mandate in place, the team further refined their strategy with the help an advisor/facilitator well familiar with preparing citizens for the jobs of the future. The result was a multi-year strategy with goals, activities, and targeted outcomes. The plan jumpstarted the Endowment's desire to begin to make a focused and impactful contribution as soon after their founding as possible.

ETHICS IN FAMILY PHILANTHROPY

What's A Nice Foundation Like You Doing in a World Like This?

BY MICHAEL RION

John D. Rockefeller, the infamous oil industry titan, created a large and long-lasting family foundation. From his early days tithing from meager wages to his legacy of professional philanthropy, Rockefeller's generosity enabled vast and lasting contributions to "promoting the well-being of humanity throughout the world" in arenas such as health care and education.[1] The sum of his good deeds is incalculable. But all this goodness arose from business practices widely seem as harmful to individuals, communities and the commonweal.

Like Rockefeller, your intentions as you create or refine your own foundation are undoubtedly good and grounded in your character and conscience. If you achieve your aims, you will indeed make positive contributions to your community and the larger society. And, like the rest of us — Rockefeller being an extreme example — you may also make mistakes. What some have called the "veil of nobility" can cloud your vision. The goodness of your cause is so great that you may ignore how you accomplish it (by, for example, treating staff or grant seekers disrespectfully or ignoring potential conflicts of interest). Rockefeller, "clad in the armor of self-righteousness," typified the way the veil of nobility undermines ethical awareness; he was impervious to any criticism.[2]

Taking time to reflect on ethics will help to clarify the values propelling your good work and to sharpen clear-sighted responsible decision-making.

You Are Doing **Morally Good Work**

Which programs and agencies do you support? The opportunities are endless, from the arts and education to health care and community revitalization. Your contributions in any of these arenas will — with due diligence and a bit of luck — achieve positive outcomes. Even if your sole interest is in tax advantages and you distance yourself from the foundation work, your gifts can serve the public good. More likely, your motivation is deeper and richer. The beliefs nurtured in your family, a sense of stewardship, your personal commitments and interests, perhaps even your desire to foster charitable impulses in your children — all these are morally laudable intentions.

These core values are the foundation of your family philanthropy. Articulating and discussing them regularly is part of ethically responsible giving. Without that touchstone, you risk drifting into haphazard giving practices. Consider, as well, that results matter as much as good intentions. You have an ethical obligation to ensure your grants and gifts are effective in achieving your goals. To be genuinely "good," good deeds must work.

Here, we need to recognize the peril of moral blinders that can lead us astray. The dictionary notion of blinders is "something that serves to obscure clear perception and discernment."[3] Rationalization is probably our most familiar example; we readily explain away something that might otherwise bother us, convincing ourselves that nothing is wrong. Our judgment can also be blinded by misplaced loyalty, allowing our family and personal relationships to cloud our thinking about, say, a potential conflict of interest. Over-confidence, and even arrogance, that often comes with power and privilege can likewise blind us to insights from grant seekers and others about the effectiveness of a particular program.

Raising the challenge of moral blinders is not an accusation. It simply acknowledges that we often overestimate our capacity for doing good and underestimate the chances of getting it wrong. The idea of moral blinders is nicely captured in an archaic but helpful word, "purblind: having imperfect perception or discernment, lacking or incapable of clear mental, moral or spiritual visions; ...obtuse.... 'To advance purblindly upon the problem ... is to intensify the mischief.'"

Clear ethical thinking can help avoid unintended mischief and enhance the integrity of charitable giving. It starts with understanding more precisely what we mean by *ethics*.

Ethics "101"

People sometimes shy away from discussing ethics. It sounds too soft, too laden with emotional disagreement, too dogmatic, or too relativistic. Fear not, there is actually much common ground.

First, some simple language clarity. *Ethics* derives from the Greek word from which we get *ethos*, that is, from the notion of character, culture, and deeply shared values. Likewise, *moral* comes from the Latin root mores, the customs and accepted rules of a group or society. While these words are sometimes distinguished, they are basically synonyms pointing to standards of what is right and good.[5] I use them interchangeably in this chapter.

While people surely disagree on many issues, there is far more consensus than you might think. Principles like fairness and promise keeping provide the basic ground rules that enable any community to function. Imagine trying to conduct day-to-day activities if you couldn't rely on colleagues, merchants, and others to be generally honest and reliable. The wariness would be exhausting. Ethics simply means treating each other with respect. Some of us come to that insight from deeply held religious beliefs, others from family upbringing or reflection on psychology and philosophy. These will shape our particular values and approach to *why* we respect one another, but the common ethical principles are not unique to our traditions or beliefs. Indeed, the late Rushworth Kidder demonstrated through global research that honesty, responsibility, respect, fairness, and compassion are virtually universal values.[6]

Legal compliance is an ethical obligation but not the only one. You will surely consult legal counsel in setting up and managing your foundation. Many compliance concerns are rooted in ethical principles. As Mark Twain is said to have quipped, "If there were no bad people, there would be no good lawyers." Legal restrictions often reflect the desire to correct or prevent ethical misdeeds. Once you understand various legal concerns, you will find that ethical decisions arise that go well beyond the legal minimums.

Ethical **Decision-Making**

Responsible decision-making balances three essential ethical dimensions: consequences, principles, and character.

Consequences

Our natural desire to accomplish something good gives rise to this perspective. The "end justifies the means" is one version: the ethical choice maximizes good outcomes for the most people. Doing good deeds is the essence of philanthropic work. Of course, if we focus *only* on consequences, we may miscalculate benefits and underestimate negative impacts of what we think is a very good thing to do. We also need to remember two other aspects of ethical decisions.

Principles

Keeping promises, acting fairly, and telling the truth represent a different approach. Principles, as we have already noted, arise from those basic ground rules that help us to interact dependably with one another. We cannot simply "translate" one unit of promise keeping into three units of fairness in order to do a utilitarian calculus. Suppose you met with two agencies and promised to review their proposals based on specific program criteria. If you then give a grant to one of the groups, and that group has a family member on its board, you have violated your promise, even though the money will be well used. At the same time, of course, emphasizing an ethical principle as the sole criteria can lead to its own kind of mischief. That program your sister is involved with may do really good things even better than competing agencies. Sorting out the right decision involves balancing both consequences and principles.

Character

Where did your values and integrity come from? You would probably talk about parents and family, school, and religious communities, or other significant people in your life. These communities of conscience nurtured and sustained your personal integrity. We all need these relationships as we are growing up and also as adults. “Knowing who we are and expressing our identity and integrity in the family foundation, as in all parts of our life, is “foundational” in the sense of laying the foundation for everything else.”[7] Decisions based only on the “head” — reasoning about consequences and principles — may miss this distinctive perspective of the “heart,” resulting in choices that won't sit well with you. Asking, “am I being true to myself?” is essential. But acting *only* on your sense of personal character and values without reflection can foster self-righteousness leading to poor decisions.

So how do we balance these three perspectives in foundation decision-making? Consider the following hypothetical case.[8]

“Look, AIDS wasn't even identified when Dad died. But I’m sure he would have supported a grant like this.”

Stan Marks, Marks Foundation trustee and eldest son of Matthew Marks, was making the case with his two sisters and the executive director for a substantial grant to an AIDS clinic on whose board he served.

“I’m not so sure about that, Stan,” argued Phyllis. “Our funding on health, before and after Dad died, has always focused on cancer research, not direct health services. Besides, I think you're too emotionally involved with the clinic to make an objective judgment. Don't you think so, too, Ellen?”

Phyllis was addressing Ellen Lambert, executive director of the Marks Foundation for the past three years and, prior to that, a staff person with an unrelated corporate foundation.

Recently, Susan Marks — the third sibling trustee and several years younger than Stan and Phyllis, had asked to speak to Ellen “confidentially.” She shared her concern that Stan and Phyllis continued to bring personal resentments toward one another into the meetings and that she, as the much younger sister, felt powerless to challenge them.

“Every time I try to say something substantive, it seems to bring them together against me,” Susan told Ellen. “Can’t you talk to them about this?”

Ellen had said she needed to think about it and they could talk again.

Many thoughts raced through Ellen's mind as she prepared to respond to Phyllis. Yes, Stan was clearly very emotionally involved with the AIDS clinic, but then so was Phyllis, who served on a cancer research center board, and their passions inspired their public service. Certainly, a grant to the AIDS clinic could fit the broadly stated purposes of the foundation. But it would also mark a somewhat new strategic direction.

She could appropriately duck the question by deferring to the three trustees, but this would mean turning the question to Susan who would probably resent her doing so.

“Well, Phyllis, ...”

How would you expect Ellen to respond? Are you more likely in the role of Phyllis, Susan, or Stan? How should they decide on the proposed AIDS clinic grant? Let's consider the ethical concerns from the youngest sibling Susan's perspective.

Consequences

Both the AIDS clinic and other familiar cancer research activities are presumably strong programs with proven track records. The first consideration should be to establish the merits of any proposed grant based on evidence of effectiveness. There is no end to great possibilities for health-related grants. If the family trustees have not established a clear strategy and criteria, it will be hard for Susan to argue for or against any particular decision. At the very least, Susan should try to lay the groundwork for some agreed-upon approach to assessing individual grants as time goes on. Meanwhile, the other ethical dimensions may be more important.

Principles

Susan's brother and sister honor the important principle of transparency: their siblings and the executive director know that each serves on a board eligible for grants. If they are not personally benefitting from any grants made by the family, there is nothing wrong with their service. And the strategic question of grantmaking focus raises no ethical concerns so long as grants fit the stated purpose of the foundation. Of course, the underlying ethical concern about effectiveness is important. The more thoughtful and consistent the process used in making grants, the more likely they will be ethically responsible.

Another ethical principle affects Susan's behavior in this example: fairness and respecting role responsibility. Her siblings apparently bring family resentments into their approaches to grantmaking. Susan's effort to enlist Ellen (the executive director) unfairly puts Ellen in a very awkward position. In order to duck another tense moment with her siblings, Susan has, in effect, abdicated her board member responsibility. If she continues to do so, the dynamics of foundation decision-making will only get worse.

Character

The heart of the disagreement here concerns family values — the Marks' family values. Should their father's particular concerns continue to direct their giving? How should each adult child's own passions and public commitments weigh in grant decisions?

The answers are rooted in their integrity, both individually and as a family. And they are complicated — no surprise — by sibling rivalry. No amount of program effectiveness data will resolve the conflict. Susan (or Ellen) might help the process by inviting Stan and Phyllis to talk about their respective personal commitments and what drives their passion. All three could reflect together on their dad's values and why he began the foundation in the first place. None of this will necessarily resolve the disagreement — they are, after all, competitive siblings — but better mutual understanding may clarify specific grant decisions.

You will notice that reflecting on these ethical dimensions does not yield a simple crisp answer. Sometimes the lines are clear and you'll know something is definitely right or wrong. More often, though, the challenge is reconciling competing "rights." Whether the Marks Foundation makes a grant to the AIDS clinic or not, the family faces this challenge. The grant decision involves balancing all three ethical perspectives and goes beyond the simple question whether to say yes or no to the grant applicant. Engaging in this kind of careful reflection — sometimes simply in your own mind, other times in dialogue with your colleagues — can open your moral imagination to ensure ethics is embedded in the work of your foundation.

A Word About **Codes of Conduct**

Did you expect a chapter on ethics to begin with discussion of a "code of conduct"? Legal concerns often lead us to think "compliance" when we hear "ethics." Many family foundations develop written guidelines to ensure decision-making consistent with core values. You might want to discuss and then document the important values and principles guiding your work. And you could develop more specific guidelines on topics such as criteria for awarding grants, handling potential conflicts of interest, and policies related to staff roles. Your own disposition as well as the size and complexity of your foundation will affect whether and how you document a code.

Remember that no rulebook is ever thick enough. There are always new ethical questions and gray areas where people of goodwill and integrity may disagree. That's why considering consequences, principles and character is so important. And one more thing: in large organizations, codes of conduct always emphasize asking for help. The same is true in your own decision-making. From consulting friends and family to calling on professional counsel to consulting publications and peer groups in the family foundation world, you are never alone. When in doubt, seek help!

Road Signs: Ethics Issues Ahead[9]

Did you notice the range of ethical concerns in the Marks Foundation case? Keeping family dynamics in check while making grant decisions is, of course, a key driver in this example. It also raises questions about honoring donor intent and about the role of trustee personal values in determining foundation priorities. How important are objective criteria and transparency in making decisions? And what is fair and what is off-limits in burdening staff members with trustees' personal concerns?

Not every decision raises these or other ethical concerns, of course. But there are some predictable issues that have emerged as groups like the National Center for Family Philanthropy have worked to understand and support families and their foundations. Here are some of the most common ones you'll want to recognize as you develop your foundation:

Clarity of Mission and Purpose

Mission statements are as varied as family foundations themselves. What is "foundational" is clarity of purpose among the trustees. At a bare minimum, articles of incorporation include some statement of purpose, but this is typically quite broad. Adopting a more specific and clear purpose is common and will help you to carve out the distinctive arena(s) where you will concentrate giving. You are unlikely to encounter puzzling ethical dilemmas in clarifying your mission. The moral challenge — and the moral opportunity — is to ensure that the purpose and values of the foundation clearly and effectively express the deep concerns that gave rise to creating it in the first place.

Honoring Donor Intent

What do you intend for your charitable giving? If the foundation is already up and running, how does the original donor's intent shape decisions about new opportunities? Promise-keeping, integrity and legal compliance are among the ethical concerns that may arise. Some things are clear: grants that conflict with the donor's intent are ethically problematic while openly interpreting donor intent in light of unanticipated circumstances is appropriate. Gray areas requiring ethical reflection might include balancing a living donor's commitments with those of other family board members and exploring together new strategic directions when board members disagree.

Strategic Choices: Active or Passive Grant-making

Writing checks to nonprofit agencies is what foundations do. Is that all you want to do? If time and money are limited, a relatively passive approach may be appropriate. Grants go to charities traditionally supported by the family without undue paperwork or research. Or you may want to be more proactive: seeking out new opportunities, welcoming unsolicited proposals with new ideas, or even working actively with other partners to develop new initiatives. Responsible stewardship includes making clear strategic choices about how and why you choose to operate.

Balancing immediate charitable needs with support for systemic change poses another strategic choice. "Do you ensure that foundation funds go directly to the worst hunger cases, the most gripping public health situations, and the neediest classrooms? Or, do you use them to build better nonprofits capable of strategically addressing the underlying causes of these ills — even if some of today's sufferers get no relief?"[10] There are sound moral arguments for both approaches. Considering your strategy with some in-depth discussion among board members will enrich your work.

Transparency and Accountability

Just how much transparency is appropriate to ensure public accountability? You can file the required federal tax forms and be done with it. Or you can be much more expansive: publishing criteria for grant proposals, developing an informative website, issuing an annual report to the public, even hosting conferences or other events. Limited resources may affect your decision — too much publicity may prompt more grant applications than a small foundation can handle.

Your foundation is a family affair generously expressing your values. It is also a tax-exempt organization granted that status as a public trust. Therein lies a tension. Genuine concern for family privacy can clash with the desire for public transparency. You may worry that publicity will bring unnecessary attention to family members outside the work of the foundation. Family comes first, but remember also your public trust. There is no one right way to resolve this tension. Ignoring it, however, falls short of ethically responsible philanthropy.

Board Membership and Process

Who will govern your family foundation? Some board meetings look a lot like family dinner; they might simply be a couple and their adult children around the table. Others add trusted advisors like an attorney, accountant, or faithful family friend. Still others with larger and multi-generational families enlarge the circle. One practical concern can be family interpersonal dynamics. "Shared family values and close working relationships among family members adds vitality and effectiveness to the work of the board. Resentments, personality conflicts and on-going tensions within the family about matters unrelated to the foundation work can disrupt trustee discussions in counter-productive ways."[11]

These conflicts raise ethical issues if trustees allow them to interfere with their fiduciary duty to make responsible decisions. Other ethical considerations include fairness in succession planning when there are multiple siblings or generations and ensuring that board members understand their distinctive role as trustees. Fostering a sense of stewardship in your children or grandchildren through foundation involvement is another worthy ethical consideration.

Respecting Staff

Do you need staff help? If so, remember to treat them well! The "Golden Rule" says it: we should treat others as we would like to be treated. The "veil of nobility" is particularly relevant here. Our grantmaking does so much good, we overlook how we treat staff in the process. It starts, of course, with appropriate compensation and working conditions. In addition, staffing a family foundation is uniquely challenging. Sometimes it feels like being a dinner guest during a family argument. Recall how Susan put Ellen in such an awkward position in the Marks Foundation case. Clearly defined role boundaries and common courtesy with staff go a long way to ensure respect.

Respecting Grantees and Applicants

Grant recipients do the good deeds you make possible. Sometimes funders forget that. Respecting applicants and grantees means learning from their insights, not just relying on your own judgments. "[S]pending more time telling charities how to behave than listening to their perspective [is] not illegal and may not noticeably harm a foundation's early record of success, though [it] surely speaks of arrogance."[12] Respect also means remembering common ethical principles like honesty, fairness, and promise keeping. Ensuring fair criteria in making decisions and communicating those decisions clearly are important. And beware the temptation to make promises you can't keep. If you are unlikely to fund a good person with a worthy program, don't lead them on to avoid hurting their feelings.

Use (and Abuse) of Power

Money is power. Your grant-making deploys that power to make positive contributions benefitting others. With that power comes potential for misuse, often unwittingly. For example, you may serve on a nonprofit board and use your influence and grantmaking to enhance its programs. All to the good — unless you carelessly merge your personal and foundation roles. Legally, for instance, you may not use foundation resources to fulfill personal charitable pledges. Ethically, you may bring your passion for that nonprofit to foundation decision-making, but you should be sure your colleagues understand your stake. And arguing for a grant in order to enhance your chances of joining a prestigious board is morally dubious, especially if there are other priorities governing foundation decisions.

Final Thoughts[13]

The "mirror test" is a familiar adage encouraging ethical awareness. "Can you look yourself in the mirror and know that you've done the right thing?" Usually this advice is offered metaphorically — you probably don't spend time interrogating yourself before the vanity at home or the mirror above the sink at work.

But what if we actually did have a mirror before us in the course of the day? A behavioral science study on "moral hypocrisy" raises the tantalizing possibility that it really would make a difference in our behavior. Individuals were asked to assign tasks using coin flips in a way that one outcome clearly favored the interests of the coin-flipper. Participants agreed that fairly distributing the tasks was more consistent with moral standards than subtly "fixing" the results to favor the coin-flipper. Yet many did, in fact, favor themselves without seeming to admit it even to themselves. (By, for instance, flipping the coins again because they "couldn't remember" how many heads and tails had come up so far.)

Now enter the mirror. When the same tasks were conducted with the participants seated near a mirror, the incidence of "cheating" went down significantly. Apparently, seeing oneself in the mirror has more than metaphorical power in encouraging ethical behavior.

What if there were a large mirror on the wall where the Marks family members were meeting? Might they be more inclined to think twice about potential biases? Indeed, what if witnesses in court were sworn in not with a Bible but with a mirror? Would hypocrisy — pretending, even to oneself, to uphold a standard while acting inconsistently with that same standard — be deterred?

I don't think the National Center for Family Philanthropy will be handing out mirrors anytime soon, but the metaphor and the real mirror both remind us to check our initial impulses and be alert to ethical pitfalls as we do the good work of philanthropy. Careful ethical thinking about consequences and principles is critical. The mirror test brings us back to that all-important third dimension of character.

Moral blinders like rationalization and misplaced loyalty can cloud the vision of people with integrity. We think of ourselves as good people. It is easier to sustain that image if we avoid confronting uncomfortable concerns. We take moral responsibility seriously when we pay close attention to consequences and principles, when we strengthen our moral imagination in conversation with others, and when we steadfastly continue our personal commitment to integrity. Then we have a good chance of sustaining clear-sighted moral vision. The good we seek to do in the world will flourish. ■

1. http://www.rockefellerfoundation.org/our-work/

2. Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York: Random House, 1998), p. 140 and throughout.

3. *Oxford English Dictionary*, 2nd ed., s.v. "blinder."

4. Ibid., s.v. "purblind." For more reflection on moral blinders, see Michael Rion, *What Were They Thinking? Why Good People Make Bad Decisions* (West Hartford, CT: Resources for Ethics and Management, 2013).

5. This paragraph is adapted from Michael Rion, *The Responsible Manager - Practical Strategies for Ethical Decision-Making* (West Hartford, CT: Resources for Ethics and Management, 1996), p. 14-15.

6. Rushworth M. Kidder, *Shared Value for a Troubled World - Conversations with Men and Women of Conscience* (San Francisco: Jossey-Bass Publishers, 1994).

7. Michael Rion, *Responsible Family Philanthropy: A Resource Book on Ethical Decisionmaking for Family Foundations* (Washington, D.C.: Council on Foundations: 1998), p. 7.

8. Ibid., p. 5.

9. The discussion of these issues is adapted in large measure from Rion, *Responsible Family Philanthropy.*

10. Rushworth Kidder, "Why Did I Make All This Money? Values and Ethics in Family Foundations," *Splendid Legacy* – (National Center for Family Philanthropy, 2002), p. 47.

11. Rion, *Responsible Family Philanthropy* ...., p. 55.

12. Kidder, "Why Did I Make All This Money?" p. 47.

13. This section is adapted from Rion, *What Were They Thinking?,* pp. 134-135 and p. 153.

14. Daniel Batson et. al., "Moral Hypocrisy: Appearing Moral to Oneself Without Being So," *Journal of Personality and Social Psychology*, 1999, volume 77, 535-537.

THINGS WE WISH OUR FOUNDERS TOLD US

BY SUSAN PACKARD ORR

This year (2017) marks the 20th anniversary of our father's death. Our mother has been gone almost 30 years. Since then, we have worked to build the David and Lucile Packard Foundation into a highly effective member of the philanthropic community. We firmly believe that our parents would be pleased with the result, but of course it's impossible to be sure.

Through their lives, our parents led mostly by example. They left very little in the way of written direction to guide us. I believe this was done on purpose, since they knew they could not predict what would be important in the future. I think, though, that we might have benefitted from a little more direction. So in the spirit of sharing some thoughts with foundation founders who are still here, here are some things I wish our founders had told us.

Favorite Grantees

There were certain institutions that were important to you that received your consistent support. These include large institutions, like your university, the children's hospital, your favorite research institute, and myriad smaller, local nonprofits that depended on your annual donations. Perhaps more importantly, some of these organizations expected that you would make a lead gift when they were launching a capital campaign. These groups often come to us for support, and I know that you would have stepped up. How important is it that we keep supporting these? Could you have left a list of those that you especially cared about? Is there a time limit after which we should focus on those institutions that we care most about instead?

Naming Gifts

During your lifetimes you rarely put your name on anything. After you died, we received many requests to name buildings, schools, awards, and memorials in your honor. We turned almost all of these down. Was that the right call?

Local Support

Since Hewlett-Packard Company grew up in Silicon Valley, we have felt that we should continue a robust philanthropic program in our local area, which we have done. Many of us still live here, so it matches our local concerns also. As we look to the future, however, it is likely that the next generations will be spread out around the country and may wish to support their own communities, or at least not provide as much support to this area. Of course, Hewlett-Packard has split into four companies and is spread all over the globe. Given the company history, should there always be a program for this geographic area specifically?

Family Involvement

Since you put your children on the board at a relatively young age (21), we assume the intent was to include the family into the indefinite future. You also invited non-family board members to the table from the first meeting. Did you wish that the family should be the majority? It is important to include all family voices, even if there are conflicts?

When you were at the table, we generally worked through consensus building, rarely actually taking a vote. Of course, since you were there, we had no trouble coming to agreement. We knew whose vote counted! During your time, you also set aside funds within the foundation to focus on issues that were very important to one of your children, even if the rest of the family was not especially excited about the program.

Did you intend the foundation to be a source of funds for individual family members to use to work on their special interests, or did you intend the family to work together on things that were of interest to the group as a whole?

If family members have widely disparate views, how would you feel about the foundation splitting up into several foundations, where each branch could work on their own projects? Would you be disappointed that your legacy foundation is not as large as it might be? Or would it please you to see your children and grandchildren using the resources to pursue their own philanthropic dreams?

Program Areas

Periodically, you gave us some direction about certain areas to avoid, like religious proselytizing. You gave us direction about continuing to fund one of the institutions you founded. However, these directives were few and far between. At the same time, you were very committed to some program areas. For the most part, we have continued to work in those areas.

Is it important that we continue to work in any specific areas, as long as there are clearly important things that still would benefit from philanthropic support? As we define new areas to work on, how much weight should we give to your views, as much as we can guess what they might have been, versus focusing mostly on what we think is important?

You were quite clear in spelling out a few things to avoid. Should we assume that if something was not on that list, it would probably meet with your approval? Or is that not important, now that you are gone?

Perpetuity

We only touched on the question of perpetuity once. At that time, you said we could consider spending down by the time your grandchildren were retiring. However, we did not explore that option in depth. It seems that your intent was to create a perpetual foundation. If we did decide to consider spending down, what criteria do you think we should use? I have always thought that your legacy was more tied to the company than to the foundation. Would you have agreed?

Conclusion

In general we are thankful that you did not burden us with a long list of dos and don'ts. We feel quite free to do what we want with the foundation. However, my generation spent many years at the table with you, and your views are well embedded into our minds. I certainly feel your presence in the room and strive to make the work worthy of your legacy.

As we move on to the next generation, it is important that we find the right balance between honoring you while providing the freedom to make the work fun and exciting. A little more direction might have helped us down that path. ■

ONE FAMILY'S STORY
A Conversation with **Bill Gates, Sr.**

Bill Gates, Sr., is no ordinary father, and Bill Gates III is no ordinary son. But their experiences in creating the Bill & Melinda Gates Foundation are ordinary to all families beginning the journey into family foundation grantmaking. Bill Gates, Sr., who was present from the first idea of the foundation, talked about its origins and formation with Virginia M. Esposito for the first edition of Splendid Legacy.

While much has changed at the Bill & Melinda Gates Foundation since this interview, we are pleased to share excerpts from this 2002 conversation in our second edition, since his insights are as important today as ever.

The earliest conversations about the advantages of a private foundation as against random personal giving were between my son and his professional advisors. There really wasn't anything you would call a family discussion. I was a part of it because I was a member of the law firm from which he was getting some of his advice. He and I did talk about it from time to time.

Bill resisted [the idea] for a long, long time because his view of life was that every time you create some kind of organization, it adds minor complications to your daily agenda. He was very reluctant to have to deal with another entity in this life. So, in spite of the financial advantages, he and Melinda were quite resistant to this idea.

Difficulties Keeping Up With Charitable Requests

After Bill's mother died in 1994, I had a conversation with him and Melinda about the fact that they were not doing a very acceptable job of keeping up with charitable requests that were being made of them personally. They didn't answer letters. They didn't get back to people. It wasn't a matter of lack of interest. It was a matter of priority. My son felt that the most important thing he had to do was to see to it that his company succeeded, that he brought in a lot of very bright, energetic young people as employees, and that they created products that are of value to the world at large. Those things were a clear preoccupation for him.

Bill's Father Makes a Suggestion

I had become less active in my law firm, and suggested to Bill that I could serve as a sort of screen and responding mechanism for some of those letters and requests. He and Melinda thought that was a terrific idea. Activity flowed from that moment very, very quickly. Now it made sense to have an entity, a foundation, because he had somebody to manage it, and it would actually subtract from his burden. Not very long after I started to help with these affairs and the mail started to be shunted over to me, we did form a foundation for their personal philanthropy. That's the beginning of the story.

First Formal Structure Is Set in Place

The foundation was created in the form of a trust. There is no Mission Statement, or at least there wasn't when Bill funded it with something in the neighborhood of $200 million. Very shortly after that, we got into some discussion about things he and Melinda cared about, such as family planning. We then decided to become more pro-active than we had contemplated. I did a survey, and invited proposals. We did select a couple of interesting projects to fund.

Discussion of Perpetuity

In terms of planning, there has been a continuous discussion of how long this foundation was going to last, and how ultimately it might be brought to a close. We don't yet know what the right answer is. It's very hard to think in terms of perpetuity. I don't know how rational it is, but there is a hesitancy about the idea of perpetual institutions.

The other consideration is that there is an attraction to having something like this for your heirs to participate in. This involves a risk, because you don't know much about the personality of your heirs, particularly the second generation. But if you assume that they are going to be quality human beings, then the idea of having this kind of an activity for them to be involved in is a very attractive thing.

We looked at the Rockefeller family philanthropy, a perpetual entity, which is an argument for perpetuity, because in our judgment it has continued to operate in a very imaginative and effective way. On the other hand, you can see models where family purposes have been diverted. The foundation gets diverted from what the person who started it, whose money it was, wanted to have happen.

Editor's Note: The Bill & Melinda Gates Foundation decided in 2006 to spend down its assets. The foundation intends to pay out all of its assets within 20 years after the deaths of Bill and Melinda.

Bill and Melinda Gates Find a Cause

Events imposed upon us the need for goal setting, and a more thoughtful approach to what we were about. These were not things we sat down and thought about in a preliminary way or in preparation for what we were doing. They were imposed on us by circumstances and our operations. We had an unbelievably large number of proposals coming in which we had to sort on the basis of what was most important to Bill and Melinda.

Then, in late 1995 or early 1996, Bill and Melinda read an article in *The New York Times* talking about the disease burden in the underdeveloped world, about how many people were dying from diseases that had long since been eradicated in the industrial world. Bill sent that article to me and asked if possibly we could do something about this.

That article showed the egregious inequity that a human being, by the accident of birth, is in a situation where a lifetime of good health is relatively hopeless compared with somebody in the United States, for whom good health care is virtually assured. That inequity is so gigantic that it does shake one's sense of justice. This was clearly the most directional event that happened in the history of the foundation. The size of the foundation began to increase hugely following that. In the course of about 12 months, Bill and Melinda contributed something in the neighborhood of $20 billion. That infusion of funds, plus Bill's developing interest in the problems of global health, gave us a very definite focus. That focus continues to narrow.

There is a lesson here of general applicability, which is that anybody who launches an activity of this kind will find themselves modifying and probably narrowing their focus and goals and the kinds of things they take an interest in. It's clear to me that, over time, as we have experience with the things we support, we may well modify even the relatively set ideas we have now. We will see the successes and non-successes.

Founder and Foundation Affect One Another

The array of interests and even prejudices that people have is so vast that, to somebody, the creation of an art museum, or the development of a symphony, or the enhancement of the quality of a school are things that appeal to personal passions — in very much the way that global health has caught on with my son and his wife.

That's the great beauty of private philanthropy — the enormous diversity of it. The amplification of one's charitable urges has a value of its own. It imposes a discipline on the activity that is very positive. It requires you to think about compliance with regulations, such as the business of minimum distributions — which I happen to be sympathetic to. It generates and continues to give a focus to what you're doing. The business of having an entity almost uniformly brings a third party, an objective player, into the mix, which is a very valuable contribution that weighs against indiscriminate, momentary passions or interests that a donor might be subject to. Almost everybody has, either within the family or in a circle of professional help, mentors and advisors, lawyers and accountants, people they talk with about important things. In that circle, there's bound to be constructive guidance and constructive day-to-day support.

Then there is the business of the contribution that the history of your activity makes to your own evaluation of what you're doing and your own sense of doing it in the best, most effective way — that's an enormously positive contribution.

Grantmaking Style Develops with Experience

By and large, the creation of a family foundation is a positive thing to do. It's a positive contribution and something that people should approach with optimism. I would certainly encourage people to go into it with some degree of flexibility, recognizing that actually conducting a foundation over a period of time will very likely have a significant effect on one's views about what they want to do.

There are process choices here, as well as subject choices. There is something of a dichotomy between a rather freewheeling gifting of money to responsible entities to perform on, and a more staffed, programmed, controlling approach where, to a large extent, activities are carried out or closely followed by people on foundation staff. When you get to a certain size, you have a choice between whether you do the work or the grantee does the work.

A Father Finds Gratification in His Son's Philanthropy

My gratification from involvement in my son's foundation is almost self-evident. It is such a joy to be a party to his philanthropy, and such a joy to see what he and Melinda are wanting to do and to be a part of it. No one should be surprised by the joy that flows from that. ■

PART II
CREATING YOUR FRAMEWORK

FAMILY FOUNDATIONS AND **THE LAW**

BY JOHN SARE

When you decide to create a family foundation, you will confront a number of important legal issues. Specifically, you must make decisions about how to:

- Define your foundation's charitable purposes;
- Obtain tax-exempt status;
- Select the assets that will fund the foundation; and
- Ensure your foundation operates within the law.

Depending on the size and scope of your foundation, each of these decisions can be complicated. But you don't have to tackle these thorny decisions on your own. This chapter will provide you with advice and resources that can help you make the best decisions for your foundation.

Because of the complex nature of foundation law, many families choose to hire a professional counsel to help them with the process of setting up the foundation and creating its governance structure. In some cases, your own lawyer or accountant will have experience in foundation governance and will be an important resource. In other cases, he or she can refer you to a colleague who has experience in these issues. You can also find professional counsel by asking for referrals from friends who have created foundations — or through professional organizations such as the National Center for Family Philanthropy or the Council on Foundations.

What, Exactly, Is a **Family Foundation**?

Before we dive into how to create your foundation and set up the mechanisms that will help you follow the law, it's important to take some time to understand how family foundations are defined.

The term "family foundation" is actually a colloquial expression. The technical term for a family foundation under the Internal Revenue Code is "private foundation" — a concept that entered the tax laws in 1969 to refer to charitable trusts and nonprofit corporations that are endowed by an individual, a family, or a company for the purpose of making grants to other charitable organizations. The IRS doesn't differentiate between private foundations that are operated by families and those that are operated by other entities.

Private foundations (like all other charities) enjoy a variety of state and federal tax subsidies — namely, exemption from income tax and an ability to receive tax-deductible contributions.

But because private foundations receive these benefits, they have long been open to criticism. Critics contended in the late 1960s that private foundations abused their special status by (among other things):

1. amassing great wealth without making distributions in support of real charitable causes,

2. retaining unwise investments in family companies in order to prop up the stock price or preserve family control, and

3. paying over-generous compensation to friends and family or making discretionary travel and study grants.

Congress eventually concluded that these perceived and real abuses warranted special federal regulation. In 1969, the term "private foundation" took on its distinct legal meaning.

The law now draws a line between "private" and "public" charities and imposes more restrictive rules on those that are classified as "private." Furthermore, contributions to private foundations qualify for less favorable deductibility treatment than contributions to public charities.

Although some "private operating foundations" carry on active charitable or educational programs, most private foundations are grantmaking organizations, technically known as "private nonoperating foundations." Foundations of this type are the focus of this chapter.

Foundation or **Donor-Advised Fund?**

Before you create your family foundation, it is important to consider whether a private foundation is the best mechanism for achieving your philanthropic goals. In some cases, alternative approaches, such as a donor-advised fund or direct charitable giving, are more appropriate.

Donor-advised funds have become a popular choice for many donors. Donor-advised funds are irrevocable gifts to a public charity, such as a community foundation, federation, commercial gift fund, and some colleges and universities. Once the donor creates the fund, he or she (or someone he or she designates) retains the right to advise the charity concerning distributions from the fund.

Depending on your goals, donor-advised funds offer some advantages. But before you choose between creating a private foundation or a donor-advised fund, it's important to consider the following factors:

- **Control:** A foundation offers more ability to control grant-making and investment management decisions than a donor-advised fund. Donor-advised funds do allow donor advisors to recommend how charitable assets are granted and, in some cases, how they are invested within a pool of investment options. But donors never have true legal or financial control of a donor-advised fund.

- **Costs:** The start-up costs and ongoing administrative and management fees of a foundation are typically much greater than for a donor-advised fund. It is important to consider whether you have sufficient assets to sustain the ongoing costs associated with a foundation.

- **Required Grant Distribution:** Broadly speaking, a grant-making foundation is required to distribute 5% of its average annual asset value each year in support of its charitable purposes. Donor-advised funds do not have an annual distribution requirement.

- **Tax Deduction Limits:**
  - The tax deduction for gifts of cash to a foundation is limited to 30% of adjusted gross income, and the tax deduction for gifts of stock or real property to a foundation is limited to 20% of adjusted gross income. If the stock is not publicly traded, the deduction for giving it to a foundation is limited to the donor's basis. The tax deduction for gifts of cash to a donor-advised fund is 50% of adjusted gross income, and the tax deduction for gifts of stock or real property to a donor-advised fund is 30% of adjusted gross revenue. Even non-publicly traded stock given to a donor-advised fund is deductible at its fair market value, if the fund sponsor will accept stock of that nature.
  - Although unused deductions in one year may be carried forward for up to five additional years, a genuinely large charitable contribution may still not be fully deductible over that six-year period. The situation might or might not be improved by shifting the gift to a public charity (such as a donor-advised fund), where the annual deductibility limits are higher, and it may be that the best strategy is to spread the gift over multiple tax years — or simply to recognize that your philanthropy is going to exceed the amount you can deduct.

- **Confidentiality:** Foundations must file an annual report with the IRS listing assets, contributors, compensation, and grants. Donor-advised fund donors may remain anonymous.

- **Funding Outside the Box:** Foundations may make grants to individuals for scholarships or to alleviate hardship or distress. Foundations may also make program-related investments. Some donor-advised funds have operating rules that limit the type of grantees to which distributions may be made, including prohibitions on grants to foreign charities and to individuals.

The 5 Steps to Forming a New Family Foundation

Once you decide to create a family foundation, you and your lawyer will need to complete the following five steps to ensure that it is set up properly:

1. Draft and file the foundation's governing instrument, either an Agreement of Trust or a Certificate of Incorporation.

2. If the foundation is structured as a not-for-profit corporation, draft bylaws.

3. Hold an organizational Board meeting to adopt the bylaws, elect officers and transact initial business.

4. Draft and file the federal application for tax exemption (Form 1023).

5. Draft and file the appropriate state forms to hold charitable assets and exempt the foundation from certain taxes.

Defining Your Foundation's Charitable Purposes

Your foundation's "governing instrument" is a document that contains its statement of purposes. This statement of purposes is a crucial step in earning tax-exempt status.

The governing instrument also specifies whether or not a foundation must be perpetual and may spell out special restrictions on succession or control. If a foundation is structured as a charitable trust, the governing instrument is an Agreement of Trust, sometimes referred to as an "Instrument," "Declaration," or "Indenture" of Trust. If a foundation is structured as a not-for-profit corporation, the governing instrument is called the Articles of Incorporation or the Certificate of Incorporation.

To receive tax-exempt status, your foundation must be "organized" exclusively for tax-exempt purposes recognized by the Internal Revenue Code. In order to meet that threshold, the foundation's governing instrument must limit its activities to one or more of the following general purposes:

- educational
- literary
- scientific
- religious
- charitable.

These purposes (and a handful of others that are rarely relevant) are commonly lumped together in the governing instrument under the heading "charitable purposes" or "tax-exempt purposes." To receive IRS recognition, your foundation's purposes must fit within one of the recognized tax-exempt categories listed above. If you expect to make grants mainly to well-established charities — such as universities, relief organizations, nonprofit hospitals, arts organizations, religious institutions, and the like — you should have little difficulty specifying suitable purposes in the governing instrument and making grants that will readily qualify under one of the recognized tax-exempt categories.

However, you may have more novel objectives — such as the woman who wanted to create a foundation to perpetuate her mother's legacy of dressmaking and embroidery, or the man who wanted to provide economic assistance to family farmers to promote the tradition of family farming. If your specific objectives are innovative or even a bit idiosyncratic, your lawyer can help you figure out whether and how your objectives can be structured to fall within the legal definition of what is "charitable." Fortunately, the legal concept of "charity" is inherently flexible and is intended to evolve as the needs of society evolve.

If you wish, you can identify general purposes (educational, charitable, etc.) and then add specific limitations. An "educational" foundation, for example, might support only private colleges and universities in Texas or only museums of Asian art. A "scientific" foundation might support only medical research institutions studying prostate cancer. A "charitable" foundation might support only the relief of poverty and construction of charity hospitals in Peru. There are myriad possibilities.

When you define a foundation's charitable purposes, you face an important practical and legal issue: balancing your desire to achieve specific charitable purposes today, and the virtual certainty that you will need some degree of flexibility in the future.

You may wish to empower those who control the foundation after your death to amend the charitable purposes — or you may decide to prohibit changes of purpose after your death.

Philanthropists often find it appealing to create a foundation that will last in perpetuity. A foundation that pays out the minimum 5 percent a year of its average annual asset value and, net of operating expenses, earns more than that should indeed be able to last forever.

But bear in mind: Forever is a very long time, and the ideas that seem wise now may be inappropriate or unworkable a century, or even a decade, in the future.

Tips For Crafting Charitable Purposes

- **Be specific.** Vague charitable purposes and excessively limited ones routinely yield confusion, discord, and litigation — sometimes during the founder's lifetime; more often in a family foundation's second or third generation.
- **Take your time.** Invest ample time and thought in the development of a statement of charitable purposes and, if appropriate, a mission statement. Write down your ideas. Let your lawyer convert your concepts into suitable "legalese." Then read the lawyer's draft critically and work with your lawyer to improve it.
- **Be critical.** Encourage family, friends, and others whom you trust to ask hard questions about your philanthropic ideas and to participate actively in the process of identifying the right charitable purposes and deciding how they are expressed.

Five Key Questions on **Charitable Purposes**

Answer these five important questions to help ensure your charitable purposes will help your family achieve its philanthropic goals:

1. How likely are my charitable objectives to evolve during my lifetime?
2. To what extent are my objectives something that my children or other successors on the board of the foundation will want to pursue?
3. What are the chances that my particular purpose may one day become obsolete or unnecessary?
4. How well have I matched funding with purpose? Have I earmarked too little money? Too much?
5. How can I ensure that later generations won't quarrel over what I mean?

Questions **About Perpetuity**

Before setting up a perpetual foundation, it's important to answer the following questions to ensure you're making the best decision:

- Am I contributing enough money to my foundation to warrant the expense forever of the apparatus necessary to manage the assets prudently and give them away responsibly?
- Who is going to run a perpetual foundation? For how many generations can I expect volunteers to shoulder the burden of carrying out the philanthropic objectives I have in mind?
- Is my charitable objective broad enough that I can reasonably expect it to remain viable in perpetuity?
- Should I impose a time limit on my foundation — a fixed number of years after my death or for the lives of my children and grandchildren?
- Should I give the board the flexibility to distribute all of the assets so that future generations can decide when and if it makes sense for my foundation to go out of business?
- If the assets are large enough and the purpose broad enough to warrant a perpetual foundation, what kind of staffing and structure do I envision? Should I create that structure during my lifetime?

Crafting a **Mission Statement**

Many foundations create governing instruments with extremely broad charitable purposes —often as broad as the law will allow. Then, to provide a focus for grantmaking, those foundations adopt a mission statement, citing particular charitable causes that will be supported or particular styles of grantmaking that are to be favored (such as challenge grants or venture philanthropy).

A mission statement can help your foundation achieve disciplined grantmaking today while preserving flexibility over the longer term. Mission statements need not be legally binding and do not need approval from the IRS or state charities officials. As a result, a foundation's trustees can readily revise or replace a properly crafted mission statement, so that the focus of grantmaking can change without needing to revise or change the legally binding governing instrument. (See pages 41–49 for more on creating a mission statement.)

Below is a fictional example that illustrates how these two documents can work in tandem to provide family foundations with flexibility and clarity:

When Tom Fox, a 50-year-old investor, formed a foundation to support the preservation of Civil War battlefields and education about the Civil War, he approached his lawyer for guidance.

At the time, Tom's lawyer advised him to set up the foundation with a broad charitable purpose in its governing instrument. He also recommended that the foundation's mission statement — which is freely changeable at any time — to spell out its focus on Civil War history and education.

This proved to be a wise choice.

In his late 70s, Tom's health began to deteriorate. In his declining health, Tom decided that we wanted to shift the focus of his foundation's grantmaking away from Civil War-related issues and toward medical research. What's more, he wanted to leave the bulk of his remaining assets to the foundation and wanted those assets forever dedicated to research into cures and treatments for diabetes and arthritis, with a limitation favoring research by public universities.

At the same time, Tom was worried that his adult children would not take a serious interest in the foundation once he died and, even if they did, he was concerned that they would not be interested in having the foundation focus on diabetes, arthritis, or any other health-related issues.

With this in mind, Tom and his lawyer agreed to take the following actions:

- The statement of purposes in the foundation's governing instrument would remain broad and unchanged.
- The foundation would adopt a new mission statement to express the intention that the foundation support research at public universities into diabetes and arthritis and "in the event they are eradicated, other medical conditions affecting the elderly."
- Tom would sign a new Will, leaving the bulk of his assets to the foundation but on the condition that the assets passing at the time of his death be used exclusively in furtherance of the mission statement in effect at the time of his death.

As a result of this new structure, the foundation's assets would be used during Tom's lifetime to further its mission. At the same time, Tom maintained the flexibility to change his mind and make additional changes because of the broad nature of its governing instrument.

At his death, his bequest would be limited to the specific purposes set forth in a mission statement he approved during his lifetime. But it also included specific instructions on how to direct the foundation's assets if scientific advancements eradicated diabetes and arthritis.

Meanwhile, the new arrangement provided some flexibility to Tom's adult children and other descendants, too. Although the bequest in Tom's Will was limited to the purposes specified in a mission statement he approved during his lifetime, the mission statement can be changed vis à vis all other assets of the foundation. Therefore, assets Tom gave before his death and any assets his descendants contribute to the foundation in the future could be used in support of whatever charitable purposes future generations deem appropriate.

Establishing **Bylaws, Selecting Directors,** and **Appointing Officers**

As part of the process of applying for tax-exempt status, your foundation must also create the rules that will govern its day-to-day operations and elect the officers who will follow and enforce these rules.

To do this, you will create Bylaws, which outline the rules for routine matters of governance and say little or nothing about a foundation's purposes. Although the trustees of a charitable trust occasionally elect to adopt Bylaws, the directors of a not-for-profit corporation almost always do so, and in some states it may be required.

Your foundation will also need a board of directors or board of trustees. Who you choose for this role is critically important. Although initially it might be just you and your spouse or partner, plus perhaps an adult child or a trusted advisor, it is important to think about how you can ensure you have people with complementary skill sets in these roles. For example, you might choose to invite a board member with a background in legal issues if others on the board do not have this skill set. You should also think about the perspectives and values that each individual would bring to the board table. It is an ongoing task to make sure that a board has an appropriate balance of skills and temperaments and that the succession process attracts people with the know-how, commitment, and cohesiveness to move the foundation forward.

You also should think through issues such as the potential for conflicts of interest. For example, if the foundation is going to own a large position in a closely-held corporation, then it might not make sense to have executives of the corporation on the board.

And you should not forget about the potential for conflict itself. If two people do not get along now, there may not be much reason to suppose that sitting them at the same board table will change that.

Conflicts of interest and conflict itself can both be managed, of course. But it is always important to ask if there are ways to avoid such issues altogether, because they are likely to distract from the important work you want your foundation to do. And depending on the circumstances, a board riven with conflicts of interest or with sheer conflict may end up spending a lot of the foundation's resources on legal fees.

What is the difference between **directors** and **trustees?**

A not-for-profit corporation ordinarily has a "board of directors" or a "board of trustees," and the board appoints a president, a secretary, a treasurer, or other "officers." A charitable trust usually has "trustees" but no officers, although larger charitable trusts may appoint administrative and program "officers."

In this chapter, the term "trustee" is used generically — and can mean the trustee of a charitable trust or a member of the board of a not-for-profit corporation. The term "officer" refers to an officer of a not-for-profit corporation or a charitable trust.

At its initial meeting, your trustees will typically choose who will serve as officers, if it is a not-for-profit corporation. The trustees will also approve the foundation's bylaws and conduct any initial business.

Obtaining Recognition of **Federal Tax-Exempt Status**

After you form your foundation, either as a charitable trust or as a not-for-profit corporation, your next order of business is to obtain recognition of its tax-exempt status. This process begins with filing Form 1023 with the IRS. Form 1023 and related instructions may be found on the IRS website. This form asks many questions about the organization and, among other things, requires the following information:

- A copy of the governing documents;
- A description of the foundation's purposes and projected activities (for example, investing donated funds and making grants to other charities);
- A list of trustees and officers, their addresses, and the compensation they will receive for their service to the foundation;
- A balance sheet containing the most current information available; and
- A detailed multi-year budget.

Additional disclosures may be necessary if, for example, the foundation has entered into a lease. The form also includes several questions about compensation and how the foundation plans to carry out its grantmaking.

Once you file your Form 1023 and pay a filing fee, the IRS will typically respond with a letter acknowledging receipt and informing the foundation about the review process and timing. During the review, the IRS may contact you or your advisors for additional information. These IRS queries are ordinarily made in writing and offer only a brief period of time for foundations to respond, although the tax agency will routinely grant extensions, if they are needed.

The Form 1023 was once a much simpler document. Today, in almost all cases, the form is best filled out with seasoned professional guidance. Imprecise or mistaken answers can raise irrelevant or perplexing questions by the IRS and can result in months of delay while matters are straightened out.

Once the IRS approves your request, it will send your foundation a favorable determination letter. This letter should be kept in the foundation's minute book along with its governing instrument, its Bylaws, and a copy of Form 1023. Ordinarily, the determination letter is retroactive to the date the foundation was formed. That means that the foundation is retroactively tax-exempt and that contributions made prior to the issuance of the determination letter are eligible for the charitable deduction. However, you may decide it is prudent to delay any material amounts of charitable giving to the foundation until after the foundation receives its determination letter.

Filing With Your State

States and most local governments recognize the tax-exempt status of foundations that have received favorable IRS determination letters. Most states offer additional tax exemptions — for example, foundations usually can apply for exemption from sales and use tax on goods *purchased* by the foundation and for exemption from tax on real property owned by the foundation and used by it to fulfill its charitable purposes.

All states have one or more bureaus with authority to investigate and regulate charities. In most states, those bureaus are part of the Office of the Attorney General or the Office of the Secretary of State. Most states impose registration and annual reporting requirements on charities. Lawyers or accountants thoroughly familiar with local rules and practice may be able to guide you through the state law requirements. Alternatively, you may wish to speak directly with officials in your state. The staff of the state charities bureau should be thoroughly familiar with the requirements and can direct you to the necessary forms and instructions.

Funding the Foundation

As you get your foundation off the ground, you will also need to make a number of important decisions about how you will donate the assets that will fund the foundation's grantmaking and operations. It's important to be deliberate in how and when you direct those assets, since these decisions impact how the IRS allows you to calculate tax deductibility. As a result, your lawyer and/or accountant can be a valuable resource in helping you make these decisions and navigating the complex tax rules.

Below are a few scenarios that help illuminate some of the key questions and issues that face families that are making these important decisions:

SCENARIO 1: **Jumping the Gun**

Janet Ford creates a family foundation in early December — and hopes to be able to claim a tax deduction for her contribution to her newly formed foundation during the current tax year. With that goal in mind, she makes her first contribution the day after the family foundation is formed, even though the foundation does not yet have a favorable IRS determination letter. Recognizing this fact, she stipulates that the foundation must return her gift if it fails to obtain a favorable IRS determination letter.

However, this decision is a mistake.

Under IRS rules, gifts are considered nondeductible if they are made under the condition that the charity must receive tax-exempt status. Instead, Janet would be wise to hold off on making her gift to the foundation until a favorable IRS determination letter is safely in hand. If she does not want to wait until the IRS's determination and instead wants to claim her tax deduction during the current fiscal year, she could also choose to instead create a donor-advised fund at a community foundation and make the donation to the donor-advised fund rather than directly to the family foundation.

SCENARIO 2: Choosing Among Assets

Frank Bass, a filmmaker with a successful production company and a sizable stock portfolio, is trying to decide which assets he will contribute to a new foundation. He learns from his accountant that the factors that affect this decision are surprisingly intricate, especially when he must choose between gifting cash, securities, property, artwork, and mortgaged assets. Given these myriad options, his accountant offers the following advice:

- A gift of cash is the simplest gift. Valuation is not an issue, and in the year of the gift Frank can deduct an amount up to 30 percent of his adjusted gross income if his gift consists exclusively of cash and he makes no other gifts to charity.
- A gift of publicly traded securities with built-in capital gain may be the most economically beneficial gift for Frank. He should be able to deduct the fair market value of the contributed securities, and the foundation will be able to sell the securities without incurring the capital gains tax that Frank would have incurred if he had sold the securities himself. However, he can deduct only up to 20 percent of his adjusted gross income in the year of the gift if his gift consists exclusively of publicly traded securities.
- A donation of real property, artwork, or other tangible personal property, interests in a closely held business, and ordinary income property (such as a copyright or rights under a contract) would provide very little economic benefit for Frank, because his deduction would be limited to the lesser of fair market value or his cost. He also learns that a gift of interests in his closely held business could raise issues under the "excess business holdings" and "self-dealing" rules (discussed later in this chapter) — and because the interests are not "qualified appreciated stock" would be deductible only to the extent of his basis in the shares. Ultimately, Frank decides his real property, artwork, stock in his closely held production company, and the copyrights from his films should be retained or given to a public charity.
- Because a donation of mortgaged property may raise issues under the "self-dealing" rules and the unrelated-business income tax rules, Frank's accountant advises him not to contribute mortgaged assets.

SCENARIO 3: A Gift of Stock

Alice Brady wishes to fund a new foundation using publicly traded stock in a company founded by her father. The stock is worth about $8 million, but Alice quickly learns that she will be able to claim only a small portion of that value on her individual tax return. That's because the value of the stock vastly exceeds her annual income, which rarely tops $300,000.

Because of deductibility limitations — primarily, the fact that she cannot deduct more than 20 percent of her adjusted gross income in a given year for a donation of publicly traded stock to a foundation — she discovers that the most she can deduct in the year of her gift is $60,000. Her accountant advises her that she can "roll over" the deductions for an additional 5 tax years, meaning that her total deduction on an $8 million gift would be approximately $360,000 ($60,000 per year in each of 6 tax years, before taking into account limitations on itemized deductions). As a result of these limitations, Alice decides to contribute only $360,000 worth of stock up front, take deductions over a 6-year period, and defer the rest of her philanthropy.

Under this scenario, a "split-interest" charitable vehicle might be appealing, especially if Brady wants to make a gift to charity while getting something in return. An interest in property is "split" by dividing the property into two interests — present and future.

The most common "split-interest" vehicles are the **charitable remainder trust** and the **charitable lead trust**. Although these trusts can be structured in many ways, the basic concepts can be illustrated as follows:

Charitable Remainder Trust

Once Alice Brady decides to contribute only $360,000 of her stock to her foundation, her financial advisor points out that her remaining $7,640,000 of stock produces very little income for her. In addition, unless she diversifies, having all of that stock with one company means she has high exposure to market volatility. If the market experiences a downturn, her assets are at risk. She voices her concerns to her lawyer, who recommends that she use the stock assets to create a charitable remainder trust. Using this vehicle, she is entitled to a lifetime stream of payments and, upon her death, the trust remainder passes to the foundation. Because the trust is tax-exempt, it is able to sell appreciated assets that Alice contributes and to diversify its holdings without incurring any capital gains tax. Alice anticipates that her income will increase because of the distributions she will receive from the trust. Although the distributions will be taxable to her to the extent they consist of income or capital gains earned by the trust, the creation of the trust entitles Alice to a charitable deduction based on the value of the foundation's remainder interest — an amount determined actuarially based on Alice's age at the time of the gift and significantly smaller than the amount of the deduction she would have received if she had donated the assets to the foundation outright. She expects that this additional deduction will offset some of the income and capital gains she plans to receive from the trust.

Charitable Lead Trust

Phil Harmon has managed to shift a significant amount of his wealth into trusts for his adult children. Now, he wants to use some of his remaining assets to create a foundation and provide for his grandchildren.

To achieve these goals, Phil's lawyer recommends he create a charitable lead trust, which is the mirror image of a charitable remainder trust. In this arrangement, Phil creates a foundation, which is designated to receive a stream of payments from a trust for a specified period of years, and at the end of that period, the trust property passes in further trust for the benefit of his grandchildren and their families. The value of the family's remainder interest is discounted based on the value of the charity's intervening "lead" interest in the trust, so Phil is able to make a transfer to younger generations of his family at a reduced gift, estate, and generation-skipping transfer tax cost and, at the same time, to transfer assets to a foundation.

There is a trade-off: To avoid adverse estate-tax consequences, Phil must transfer legal control of the foundation to his adult children and grandchildren.

Charitable lead trusts are especially beneficial during times when interest rates are low, because of the IRS tables used to calculate the value of the family's remainder interest in a charitable lead trust. That is, if the actuarial assumptions about asset growth are conservative (as they are required to be when interest rates are low), the present value of the family's remainder interest in the trust will be conservatively calculated as well. If the trust's investments outperform the payout rate plus the assumed rate of interest, the actual value of the family remainder will exceed the actuarial value assigned to it for purposes of gift, estate and generation-skipping transfer taxes. (For more on this topic, see Funding Your Family Foundation.)

Operating **Within the Law**

In many ways, creating a foundation is similar to creating a new business in a regulated industry. You are committing hundreds of thousands, perhaps millions or tens of millions of dollars, to this activity. The IRS, state charities officials, journalists, and other watchdogs are looking over your shoulder to make sure you run the business legally and ethically. In the Internet age, these watchdogs have access to more information than ever before about foundations — meaning that the degree of public scrutiny is greater than ever. This higher degree of scrutiny can come with a high cost. If your foundation violates certain rules, the IRS can impose excise taxes (in effect, penalty taxes) at rates high enough that foundations and those associated with them cannot treat the taxes as an acceptable cost of doing business. Continued violations of the rules may cause a foundation to lose its tax exemption.

You owe it to yourself and your foundation to develop at least a basic understanding of the applicable rules. The following summary will help you gain a basic understanding of the key rules, but is by no means exhaustive. You should consult with qualified legal counsel if you wish to pursue these topics in greater detail.

Tips for Staying **Out of the Headlines**

As you set up your foundation, consider the following to help ensure that you're getting the right resources and advice regarding governance:

- Be prepared to commit a small but reasonable portion of the annual budget to good governance and compliance with applicable laws.
- Seek out lawyers, accountants, and financial advisors who are honest, experienced in the foundation area, and willing to commit the time and resources necessary to provide thorough and thoughtful advice to the foundation.
- Don't hesitate to ask prospective advisors how many foundations they have created and how many they advise on an ongoing basis. Ask for client references and try to find out if the clients believe they have been well served.
- Don't assume that the advisors who help you run your business, or the advisors who handle your estate planning or prepare your tax returns, are necessarily well versed in the intricate rules that govern private foundations. Ideally, the advisors who work with your foundation will have experience helping other foundations.
- Consider including your professional advisors at board meetings, so they can serve as ready resources to help the family solve legal, ethical, and practical issues.

Understanding **Your Risks**

The IRS has a number of strict penalties that it imposes on foundations that do not comply with the rules related to maintaining their tax-exempt status. Throughout this chapter, we'll explore how your foundation can ensure that it is operating in compliance with the law. However, it's important to understand the risks your foundation faces if it fails to adhere to the law.

The following table offers a summary of excise taxes the IRS can impose on private foundations:

Issue	Tax	Frequency	Tax on Knowing Foundation Manager	Second-Tier Tax (Other than on managers)
Act of Self-Dealing	10% of amount involved (on the individual self-dealer)	Each year until correction	1st tier: 5% up to $20,000 maximum per act 2nd tier: 50% up to $20,000 maximum per act	200%
Annual Distribution Requirement	30% of under distributed amount	Each year in which there is an under distribution	NA	100%
Excess Business Holdings	10% of value of excess business holdings	Each year in which the excess holdings continue	NA	200%
Jeopardizing Investments	10% on amount so invested for each year of taxable period	Each year until amount no longer in jeopardy	1st tier: 10% up to $10,000 maximum per investment 2nd tier: 5% up to $20,000 maximum per investment	25%

Technical compliance with the private foundation rules is a necessary condition of operating within the law, but it is not sufficient.

As a more general matter, a foundation must be operated prudently and for exclusively charitable purposes. A poorly run foundation risks not only imposition of the excise taxes outlined above, but also the loss of its tax-exempt status. The IRS has the power to revoke tax-exempt status if:

- A foundation engages in any political campaign activity;
- Any part of a foundation's net profits "inures" to the benefit of insiders;
- More than an "insubstantial part" of the activities of a foundation consists of legislative lobbying or confers a private, rather than public, benefit; or
- A foundation engages in repeated or flagrant violations of the private foundation tax rules.

In the final analysis, a foundation jeopardizes its tax-exempt status whenever the totality of its operations suggests that it no longer deserves the benefit of tax exemption. Furthermore, any amount of political campaign activity or lobbying activity may result in hefty excise taxes under the "taxable expenditure" rules described below — sometimes in tandem with the revocation of a foundation's tax-exempt status.

The **IRS Isn't the Only Cop** on the Beat

If state charities officials investigate a foundation and find abuses (for example, improper benefits flowing to insiders or a lack of sound financial management), the trustees and officers risk removal and may even be forced to pay monetary damages for any financial harm they do to the foundation.

Some states have specific laws about the role of family members in a foundation. For example, under section 5227 of California's Nonprofit Corporation Law, if even one family member is being paid by a California foundation that is structured as a corporation, California's corporate statute requires that at least 51 percent of the seats on the board be held by "disinterested" individuals — i.e., people who are not members of the family.

New York in 2014 enacted the Non-Profit Revitalization Act ("NPRA"), perhaps the most comprehensive set of recent state charities law reforms. Under NPRA, a family foundation may not enter into any transaction with a family member (not just compensation arrangements) unless the Board determines that the transaction is fair, reasonable and in the foundation's best interests. No family member with an interest in the transaction may participate in deliberations or vote on the transaction.

Even more stringent concepts of the "duty of loyalty" may apply if a foundation is created as a charitable trust, unless the governing instrument expressly says otherwise.

The bottom line: The transactions of a foundation can be readily subjected to public scrutiny. If you think a reporter could make a financial arrangement look bad on the front page of the local paper, consult with legal counsel before you do it.

Good Governance

The best way to stay out of trouble is to institute good governance practices right from the start. This includes holding Board meetings at least annually, taking minutes at all Board meetings and recording all Board decisions, following the procedures outlined in the bylaws for the election of directors and officers, and adopting and following policies and procedures so that:

1. the Board understands its fiduciary responsibilities,
2. assets are managed prudently, and
3. the foundation's charitable purposes are carried out.

Foundations typically have a conflict-of-interest policy, and many foundations have additional policies, such as an investment policy, whistleblower policy, compensation policy, or expense reimbursement policy. Breaches of fiduciary duties may result in financial and other liability for the Board.

Meeting Annual **Reporting Requirements**

A private foundation must file an annual Form 990-PF report with the IRS. This form is a highly detailed "information return" that includes details about your foundation's assets, investment income, donations, salaries and other expenses, and grants and other expenditures for charitable purposes. If a foundation has violated any of the so-called "private foundation rules" (discussed below), information about those violations must be disclosed in Form 990-PF and an accompanying IRS Form 4720. The Form 990-PF must be filed with the IRS by the 15th day of the 5th month after the close of the foundation's fiscal year, unless the foundation applies to the IRS and receives permission for an extension. The IRS may apply substantial penalties if the Form 990-PF is not filed by the deadline. Many states also require an annual report, the bulk of which is often a copy of Form 990-PF. Both the IRS and state charities officials typically make these documents available for public inspection, and much of this information is available online through organizations such as GuideStar and the Foundation Center.

A foundation is required to provide a copy of its three most recent Forms 990-PF as well as its Form 1023 (together with any documentation and correspondence submitted in support of the Form 1023) to any individual who requests a copy. If the request is made in person at a foundation office, the request must be honored immediately. If the request is written, the request must be honored within 30 days. A reasonable fee may be charged to cover photocopying and postage. In lieu of providing a copy, a foundation may post its three most recent Forms 990-PF and its Form 1023 online. The Form 990-PF and the Form 1023 also must be available for public inspection at the foundation's principal office. The IRS can penalize both the foundation and its responsible managers for failure to make these documents available upon request.

Form 1023 requires the names and addresses of trustees and officers, plus a phone number for a representative of the foundation — usually the lawyer filing the application. Form 990-PF requires a list of the names and addresses of substantial contributors, trustees and officers, but not telephone numbers. To insulate your home address from the disclosure requirements, you may prefer to use an address "in care of" your office or the office of a lawyer, accountant, or other advisor.

Avoiding **Self-Dealing**

With narrow exceptions, a foundation's transactions (direct and indirect) with "disqualified persons" will be treated as taxable "acts of self-dealing." That is true even if the transactions are on fair and reasonable terms and are approved by disinterested trustees or officers. Such transactions would include sales, loans, or leases between a foundation and a "disqualified person" and arrangements that result in the use of foundation assets by a "disqualified person."

What in the World is a **"Disqualified Person?"**

You become a "disqualified person" as soon as you create a family foundation. So do your spouse, your children, grandchildren, great-grandchildren, and their spouses. Your parents and other ancestors are "disqualified persons," too, but your brothers, sisters, and their descendants are not.

But that is only the beginning!

The trustees of a foundation are "disqualified persons," even if they have made no donations to it. For purposes of the "self-dealing" rules, government officials are "disqualified persons," regardless of their connection — or lack of a connection — to the family. And finally, family businesses, trusts, and estates also can be "disqualified persons," depending on the percentage owned or controlled by individuals who are "disqualified persons."

There are some useful exceptions to the self-dealing rules. For example, a foundation may pay compensation to a disqualified person for personal services rendered that are reasonable and necessary to carry out the exempt purpose of the foundation, provided the compensation is not excessive and provided state law does not prohibit the arrangement. The IRS has taken the position that the only personal services for which a disqualified person may receive compensation are services as a trustee, officer, or staff member and legal, investment, and banking services. Before a disqualified person is paid for services that fall outside those narrow categories, it is advisable to consult with legal counsel about the implications. Directors of private foundations generally serve without compensation. However, foundations often pay the premiums for directors' and officers' insurance and reimburse directors and officers for reasonable expenses incurred in connection with foundation activities.

The IRS imposes a penalty tax both on the "disqualified persons" who participate in an act of self-dealing and on those trustees and officers who knowingly participate in that act by approving it.

Examples of **Self Dealing**

- A foundation buys a table at a benefit dinner and distributes the benefit tickets to family members or other "disqualified persons."
- A foundation owns works of art and permits the founder or other "disqualified persons" to exhibit the works of art at home.
- A foundation pays an honorarium to a government official for giving a speech or participating in a seminar.
- A foundation and "disqualified persons" are investors in the same company, and the foundation holds onto an investment in order to "prop up" the stock price.
- A foundation buys an asset from a "disqualified person," even if the terms are economically advantageous to the foundation.
- A foundation invests in a partnership in which other "disqualified persons" own more than 35% of the profits interest.
- A foundation pays excessive compensation to a "disqualified person" for his or her services to the foundation.
- A foundation pays rent—even below-market rent—for office space in a building owned by a "disqualified person."
- A foundation makes a grant that satisfies a legal obligation of a "disqualified person."

A **Cautionary** Tale

Margery and Steve Wilks create a foundation and decide it needs office space. They speak with their son, Bob, and daughter-in-law, Susan, and decide to rent space in an office building owned by a corporation.

Although Susan is on the board of the corporation, she receives no compensation for that work, and she is not an officer. Susan owns no stock in the corporation, but she and her children are the sole life beneficiaries of a trust (created by Susan's father) that owns 36 percent of the voting stock of the corporation. The other 64 percent of the voting shares are owned by a group of unrelated investors. The sole trustee of the trust for Susan and her children is a large bank. Susan has no authority to decide whether the trust will retain or sell its stake in the corporation.

The Wilks conclude that the rental fee is fair and that the transaction should be fine because family members own no direct interest in the corporation and because the terms have been negotiated at "arm's length" with a corporation that no family member controls and from which no family member receives compensation.

The Wilks take the lease to their lawyer for review, and the lawyer informs them that there is a tax problem: The corporation that will be leasing space to the foundation is a "disqualified person," she says, and the lease would result in an "act of self-dealing" under the tax laws. She explains the analysis as follows:

1. The trust is a "disqualified person" because more than 35 percent of the beneficial interests in the trust are held for the benefit of individuals (Susan and her children) who are "disqualified persons" because of their family relationship to the Wilks.
2. The corporation is a "disqualified person" because more than 35 percent of the voting power is owned by a "disqualified person" — that is, by the trust described above.

The Wilks' lawyer explains that it is irrelevant for tax purposes whether Susan and her children control the trust or the corporation — and whether the rental fee is fair. The only acceptable solution, from a tax standpoint, is for the foundation to use the space for free. That solution is not financially acceptable to anyone. The Wilks then propose to lease office space from Steve's brother. Their lawyer advises them that siblings are not "disqualified persons," so the lease should be fine for federal law purposes. But the lawyer cautions that Steve's brother would become a "disqualified person" if he joined the foundation's board or became a substantial contributor. The lawyer also cites fiduciary considerations under state law, including a state statute that requires recusal of family members from the vote on a transaction such as this one. The Wilks decide they will look for space available from a completely unrelated party.

Protecting **Directors** and **Officers**

Good governance will help keep you foundation out of legal trouble. By remaining well-informed, attentive, and honest, foundation trustees should rarely, if ever, be subject to removal or financial sanctions. That is true even if the trustees occasionally, in good faith, make errors of judgment.

Even honest and hardworking foundation leaders can be sued or threatened with suit, however, or can inadvertently violate the private foundation tax rules. For that reason, every foundation should consider obtaining insurance coverage for its trustees and officers. This insurance — commonly known as "directors and officers" or "D&O" insurance — should cover defense costs as well as any damages, taxes, or fines that must be paid.

The component parts of this insurance should be reviewed carefully with counsel, to help the foundation assess whether the insurance is adequate to cover the relevant categories of potential liability.

Some types of insurance may be deemed "non-compensatory" and other types "compensatory," which will affect whether the premium payments must be treated as taxable income by those who are insured. Premiums for "compensatory" insurance — for example, insurance covering liability for the private foundation taxes — must be taken into account when evaluating the over-all reasonableness of the compensation a trustee or officer receives.

Those who receive insurance coverage from a foundation should consult with their own tax advisors about the income tax consequences of the premium payments.

For cases that insurance does not cover or situations in which an advance is needed to cover legal or other expenses, an indemnification from the assets of the foundation also may be appropriate, subject to applicable legal limits.

Holding On to the **Family Business**

A foundation and its "disqualified persons," in the aggregate, may not ordinarily hold more than 20 percent of the voting equity of a business enterprise. If they do, the foundation is subject to an excise tax.

To better understand how this plays out in practice, let's explore the following example.

Bill Reed plans to create a foundation by donating to it 80 percent of his family company — a figure that is well in excess of the 20 percent limit. He discusses the issue with his lawyer, who explains that there is a special "grace period" for gifts and bequests.

For donated assets, a foundation has 5 years from the date of the gift to divest itself of the excess and, if it fails in that effort but can demonstrate sufficiently diligent efforts to divest itself, it might qualify for a 5-year extension from the IRS. The lawyer points out, too, that the 5-year grace period can be extended if Bill delays his gift and makes a bequest instead. In that case, the 5-year grace period ordinarily would not start to run until the shares of the company are actually distributed to the foundation by Bill's estate. Bill's lawyer cautions that Bill probably should not give a large percentage of his company to the foundation unless he is certain that there will be a public market for it. If the only prospective buyers are members of Bill's family, or trusts for their benefit, their purchase of shares (from the foundation or from Bill's estate) could easily be "acts of self-dealing."

Other Exceptions to the Excess Business Holdings Rules

- The threshold of permitted ownership increases from 20 percent to 35 percent if a foundation can establish to the satisfaction of the IRS that the business enterprise is controlled by persons who are not "disqualified persons."
- If a foundation's holdings are 2 percent or less by vote and by value of a business enterprise, then the aggregate holdings of the foundation and "disqualified persons" may exceed 20 percent. If an enterprise receives at least 95 percent of its income from passive sources (such as interest and dividends earned on investments), or if the enterprise is properly classified as a "functionally-related business," then the foundation and "disqualified persons" may own any percentage, even 100 percent, of the enterprise.

Rules of the Road for **Grantmaking**

It is important to understand the legal considerations involved in making grants. Before sending out a grant check, the foundation should:

- Determine whether a prospective grantee would be an appropriate recipient of a foundation grant. If the grantee is a U.S. public charity, then a foundation grant may be made without requiring further reporting from the grantee. To determine whether a prospective grantee is a U.S. public charity, consult IRS Publication 78 or other resources available on the Internet. If the prospective grantee is not a U.S. public charity, the foundation's lawyer should be consulted to help determine the appropriate expenditure responsibility steps, or possibly develop the file necessary to establish that the foreign organization is equivalent to a U.S. public charity.
- Review the grant proposal carefully. Make sure making the grant will be in furtherance of the foundation's charitable purposes, and that there is not an expectation on the part of the prospective grantee that the funds will be used for political activities or lobbying.
- In general, ensure that the grant check is accompanied by an award letter or grant agreement. For a straightforward grant to a U.S. public charity, this can be a simple letter informing the grantee of the foundation's decision to award the grant, and providing that the foundation does not wish to receive any benefit in return for the grant. For a complicated grant or a grant with restrictions on the use of grant funds, a grant agreement that all parties sign, outlining the expectations of the foundation, can help to reduce future confusion and misuse of funds.

It is also important to understand what types of grants are not considered tax exempt under IRS rules.

Without exception, grants to political campaigns and other amounts spent on electioneering are "taxable expenditures" and as such can result in substantial excise taxes on the foundation and its managers. The same is true for expenditures to publicize a foundation's support of, or opposition to, a candidate for political office. Such expenditures should be avoided altogether. Advocacy activities should be undertaken with great care, and only in consultation with a lawyer familiar with the rules. There are many cases in which lobbying expenses also will be "taxable expenditures."

Grants to individuals, foreign charities, other private foundations, non-charities, and organizations whose tax status is unknown may be classified as "taxable expenditures" unless the grants are properly structured. Grants to organizations not classified as U.S. public charities (or determined to be the equivalent of a U.S. public charity) ordinarily will necessitate the exercise of "expenditure responsibility." The foundation's lawyer should be consulted in advance of making any such grant, to ensure that all appropriate steps are taken. Some of the requirements are:

- A diligent "pre-grant inquiry" about the grant recipient.
- A written agreement requiring, among other things, that the grant recipient:
  1. Provide written reports about its use of the grant money;
  2. Return funds not used for the purpose specified in the grant agreement; and
  3. Not use the funds to engage in political activity, legislative lobbying, or other prohibited activities.

Grants to individuals for travel, study, or other similar purposes (including scholarship grants) must be made pursuant to procedures pre-approved by the IRS. A foundation may make grants directly to individuals if the grants are not for travel or study and if the grants further charitable, educational, or other 501(c)(3) purposes, such as a grant to indigent individuals to enable them to purchase furniture.

FUNDING OUTSIDE THE BOX:

Expenditure **Responsibility and Scholarships**

Phyllis Landers is committed to disaster relief and education in Latin America. She decides she wants her foundation to make grants to organizations based in Latin America or, in some cases, directly to local governments in areas where hurricanes, floods, or earthquakes have occurred. She also wants to award scholarships to students in Latin America who want to study civil engineering and medicine and express an interest in applying their skills in Latin America.

When Phyllis brings up the idea at a foundation board meeting, her lawyer explains that the foundation should not just "write a check." He offers a daunting array of precautions:

- If the grant recipient is an organization not recognized by the IRS as a public charity, a grant agreement and other special steps are required under U.S. tax law unless there is an equivalency determination (i.e., that the foreign charity is equivalent to a U.S. public charity).
- Although the tax law does not mandate a grant agreement when the grantee is a foreign government (or a foreign government's agency or instrumentality), it would be prudent for the foundation to put the terms of the grant in writing anyway.
- A scholarship recipient does not have to sign an agreement, but the foundation must instead adopt an objective and nondiscriminatory procedure for the selection of scholarship recipients. This procedure, at a minimum, must:
    1. Require that scholarship winners be selected from a pool sufficiently large to constitute a charitable class;
    2. Enumerate suitable criteria for selecting scholarship winners (for example, academic performance, performance on tests designed to measure ability, aptitude, and motivation, recommendations from instructors, financial need, and conclusions drawn during an interview process concerning ability, character, etc.);
    3. Require that members of the selection committee not be in position to derive a personal benefit if one prospective scholarship winner is selected rather than another one;
    4. Require that the grant either be in the nature of a prize or an award, or for a scholarship for study at an academic institution, or a grant for the achievement of a specified educational objective (producing a report, enhancing an artistic or musical skill or talent, etc.); and
    5. Impose a reporting system, to allow the foundation to monitor the courses taken by the scholarship winner, grades received, degrees attained, articles written, research completed, music composed, etc.
- Before implementation, the scholarship procedure must be filed with the IRS for approval. The procedure is deemed approved if the IRS raises no objections within 45 days.
- Scholarships must be for study at a college or university and must be structured so that they would be excluded from the recipient's gross income — not under current tax law but under the law as in effect until 1986.
- Other rules apply if individuals receive grants that are not scholarships — for example, grants to enhance a scientific or similar skill, to recognize a specific achievement, or to relieve poverty or distress.

Phyllis and the other members of the board discuss these requirements at length and realize that they cannot, as volunteers, adequately handle the workload. The board votes to begin a program of Latin American grants and scholarships — but only after the foundation hires an administrative assistant who can dedicate 1 to 2 days a week to running the program.

FUNDING OUTSIDE THE BOX:

Program-Related Investments

On one of her frequent visits to Mexico, Phyllis Landers meets Juana Lopez, who is trying to revive the local silk-making industry in Oaxaca. During their meeting, Juana explains to Phyllis that there was an indigenous silk-making craft in southern Mexico prior to the Spanish Conquest. However, the industry was suppressed in the 16th Century when the Spanish, from their base in the Philippines, began to ship silk from the Far East to Mexico and Spain. Juana is cultivating silk worms on mulberry trees on her farm, but she says that too little silk is being produced for a viable industry to be established. Fifteen to 20 local women, most without jobs or any education, are being trained to cultivate the silk, harvest it, and make cloth. Juana sells the cloth in local shops, mainly to tourists. Juana says that she sees the potential to hire more people and perhaps eventually operate a profitable business.

At a foundation board meeting, Phyllis proposes that the foundation make a grant in support of Juana's silk-making activities. Several trustees express the view that a grant would not be appropriate, because Juana appears to be operating a business with a profit motive. Phyllis argues that Juana's business probably will never make a profit, or at least not a significant one, and that the real objective of the activity is to restore a craft tradition that died out nearly 500 years ago and to provide job training and jobs in an impoverished region.

One trustee asks whether the idea of a PRI might be appropriate. The trustee explains that "PRI is foundation lingo for program-related investment — an investment no one would ever make except to do good in the world."

After meeting with the foundation's counsel, the board learns that the PRI must be for a purpose that is genuinely charitable and consistent with the foundation's governing instrument. The production of income or gain cannot be a significant motive of a PRI. After a review of the relevant documents and the law, the lawyer concludes that the foundation may make the investment as a charitable undertaking.

After some debate about whether to lend money to the project, in exchange for a promissory note, or to invest in the project, in exchange for a share of the equity, the board selects the second option. The foundation will seek, in exchange, a seat on the board of directors of the new business. The trustees conclude that a seat on the board will enable the foundation to provide ongoing business advice intended to ensure the survival of the new company and will prevent the company from abandoning its initial mandate. Protecting the foundation's investment, the trustees conclude, is not a significant objective of taking a seat on the board.

Although the foundation will own more than 20 percent of the stock in the new business, counsel to the foundation advises the trustees that there should not be any problem with "excess business holdings" so long as the foundation can show that an investment in the business is substantially related to the foundation's performance of its charitable purposes.

Steering Clear of Jeopardy Investments

Investments by a foundation that "jeopardize" its ability to fulfill its charitable purposes may result in the imposition of an excise tax on the foundation and foundation managers who participate in the investment decision. This rule is analogous to the state-law requirement that a foundation's assets be managed "prudently."

According to IRS Regulations, some types of investments will be "closely scrutinized": margin investments, commodity futures, oil and gas wells, "puts," "calls," and "straddles," warrants, and short sales. There are exceptions for donated assets and for investments that are "program-related" — that is, investments made in furtherance of a foundation's charitable purposes.

Ensuring Minimum Distributions

A grantmaking foundation must annually distribute at least 5 percent of its average annual asset value in furtherance of its charitable purposes. The bulk of these "qualifying distributions" ordinarily consists of grants to appropriate grantees, although the reasonable expenses of administration of the foundation (other than investment-related expenses such as manager fees and the legal and accounting costs associated with investment activities) also can be counted toward the minimum-distribution requirement.

A foundation must meet its 5 percent distribution requirement either in the tax year the requirement arises or by the end of the following tax year. The excise tax for failure to meet the annual distribution requirement is imposed only on the foundation.

Paying Tax on Net Investment Income

A foundation's net investment income is taxed at a rate of 1 percent or 2 percent per year. Qualification for the 1 percent tax rate depends on a somewhat complicated calculation linked to the foundation's qualifying distributions in the current tax year, its average qualifying distributions in prior tax years, and its net investment income.

Broadly speaking, a foundation that exceeds its average historical levels for qualifying distributions by at least 1 percent of its net investment income can qualify for a 1 percent, rather than 2 percent, tax on its net investment income.

A foundation cannot qualify for the 1 percent tax rate in its first year of operation. Accordingly, it may be advisable to delay sales that will result in a significant capital gain until the foundation's second tax year — and to make grants in the first and second years sufficient to qualify for the 1 percent tax during the second year. This is the only private foundation excise tax that is not avoidable.

Succession and Changing the Legal Structure of the Foundation

Succession planning is a key aspect of governance. It should be discussed carefully with friends and family and, ultimately, with your legal and financial advisors.

As you consider succession, it's important to ask the following questions:

- Will the foundation remain in the hands of your family?
- Will it be placed in the hands of trusted advisors or employees and the people they select?
- Will it go on perpetually or will it go "out of business" in a generation or two?
- To what extent, if any, should the governing documents limit eligibility for the governing body or the intended "life" of the foundation?
- Are your goals for succession best accomplished using a charitable trust or a not-for-profit corporation?

- Should there be special arrangements if you develop dementia or are otherwise incapacitated for an extended period prior to death?

Many foundations change dramatically after the death or permanent incapacity of the founder. Some divide into multiple foundations, reflecting the geographic dispersion and differences of opinion of the founder's adult children and grandchildren. As a legal matter, the division of a foundation is relatively easy to accomplish, although family discord can complicate the process. The divided foundation enables each branch of the family to pursue its philanthropic goals (and its investment strategies) in the way it sees fit. Such a division should limit opportunities for internecine conflict. If you create a foundation and sense that its division is inevitable, or even desirable given the family relationships, you might wish to leave a letter of instructions outlining your intentions and hopes for the family's future and the future of the foundation. It may be easier for your heirs to endorse the idea of dividing the foundation if you have endorsed it in advance.

A foundation with close ties to a small group of public charities — a favorite university and a favorite museum, for example — might convert into a "supporting organization" of those charities, and in that way enjoy preferred tax treatment as a public charity. A foundation might even pay out all of its assets directly to favorite charities — on the theory that a "middle man" is no longer necessary or appropriate. A foundation lacking wealth of a magnitude that warrants a staff of investment experts and grants officers might conclude, after the founder's death or permanent incapacity, that it should transfer its assets to a community foundation. A community foundation can hold the foundation's assets in a "field-of-interest" or donor-advised fund that furthers the goals of the founder but relieves friends and family of administrative burdens — and should reduce administrative costs as well.

Termination

Should you wish to terminate the foundation, it is important to consult with the foundation's lawyer, as federal and state law require the foundation to follow specific termination procedures.

Summing Up

For the philanthropist who is in the process of creating and running a foundation, the legal issues outlined in this chapter can be distilled into a few basic questions that bear fundamentally on the long-term success of the foundation:

- Have I provided clear guidance about what I envision?
- Have I provided the flexibility that I will need if my charitable goals change with the passage of time?
- Have I defined a mission that is broad enough so that it will endure as long as there is money to fund it?
- Have I structured my philanthropy in a way that best achieves my family's tax and financial objectives?
- Do I understand the "ground rules" well enough to know that I can be comfortable operating within them?
- Have I created a system of checks and balances to ensure that the foundation fulfills its charitable mission and remains in compliance with applicable laws?

Affirmative answers to these questions should result in a solid legal framework for your foundation — an enduring structure that will enable you and your family to accomplish your philanthropic objectives. ■

FUNDING YOUR FAMILY FOUNDATION

BY ANTONIA M. GRUMBACH, with a 2017 review and update by JOHN SARE and BRIAN SWEET

Founders face choices both in how to fund their family foundations and in which assets to use. The decisions of when to fund a foundation and how much to fund it with will depend not only on a founder's available assets, but also on how the founder plans to use the foundation. A founder can fund a foundation with one lump-sum contribution and make no further gift. Alternatively, the founder may decide to make periodic contributions to the foundation to build up its assets over a period of years. This approach makes sense for founders who are funding their foundations out of annual income; they contribute more in good years and less in lean years. Often, the founder's funding plan is tax-driven: the founder seeks to make contributions at times that will maximize the founder's income tax deductions, while the founder intends the foundation's operations and grantmaking activities to proceed on an independent schedule.

Some founders establish a foundation as an estate planning vehicle. They do not wish to use it for grantmaking immediately and so they create it, allow it to lie virtually dormant for years, and then fund it with a large bequest in their will or perhaps when they inherit significant sums. Still other founders establish a "pass-through" foundation to make gifts during their lifetimes. They make (or the family business makes) annual gifts to the foundation that support grantmaking and operations. The idea is to fund the foundation for annual operations, and not to commit large amounts of capital to fund it permanently. (For advantages and disadvantages of different methods of funding, see chart on page 98).

A founder must also decide which assets to use to fund the foundation. Federal tax law favors the contribution of cash or appreciated publicly-traded stock by allowing the founder the maximum deductibility: a deduction based on the fair market value of the property contributed. Tax treatment differs for other assets, such as interests in real estate or real estate trusts, stock in an S corporation, stock in a closely held family or other business, art and other valuable personal property, stock options, interests in protected intellectual property, and so on. Generally, contributions of those assets will be deductible only to the extent of their income tax basis, unless fair market value is lower than basis. Because most founders make their contributions from cash, publicly-traded stock, and closely-held stock, this discussion focuses on those types of assets. Whatever assets they use, founders should always review the matter with their lawyer or accountant. (For a discussion of tax deductibility of various classes of assets, *Facing Important Legal Issues, p. 59.*)

Constraints Limit **Business Holdings**

Families that establish private foundations often also own and operate successful business enterprises that can serve as convenient sources of income for the grantmaking activities of those foundations. Thus, family businesses are likely sources of lifetime gifts or bequests to family foundations. Enter the "excess business holdings" rule.

Congress adopted the 1969 Tax Reform Act to address concerns over the possible abuse of the control of charitable assets. One concern was that a donor or donor's family might receive a charitable deduction while still maintaining control of the donated family business through the foundation. Consequently, the 1969 legislation limits the extent to which a private foundation may own an interest in any business enterprise. This is an arcane and extremely complicated area of tax law.

Specifically, the excess business holdings rule limits the amount of voting interest a private foundation can hold in a business enterprise that is not related to its exempt purposes. If the limits are exceeded, an onerous excise tax is imposed. For this purpose, a business enterprise is broadly defined to include almost any trade or business, but excludes:

- **"Functionally related" businesses.** For instance, a foundation dedicated to grantmaking in the field of education that supports innovative teaching techniques in public schools could create, or acquire, a business that develops a web-based program for innovative educational curricula. Because this business is determined to be "functionally related" to the foundation's charitable purposes, no restrictions apply to the size of holdings in the business. The foundation could, in fact, hold a 100 percent ownership interest in a functionally related business.
- **Businesses that derive 95 percent of their gross income from passive sources, such as dividends, interest, or rent.** It may be possible for a foundation to hold a large interest in a family-owned real estate company if the company's income consists solely of rent from its properties.
- **"Program-related investments."** These are investments made by a foundation for a programmatic purpose that relates to its charitable purposes, not primarily for the production of income. An example is a foun-

dation that makes health-related grants and also invests in a startup company that is developing a promising drug to combat a particular disease.

Absent one of these exceptions, the size of the holdings a private foundation can have in a business enterprise — the "permitted holdings" — depends on the amount of voting stock of the business that is held by "disqualified persons." The *de minimis*, or safe harbor, rule establishes an upper limit on holdings, below which excess business holding provisions do not apply. Under this rule, if a foundation (and other related foundations) holds no more than 2 percent of the voting shares and no more than 2 percent of all classes of stock in a business enterprise, the foundation will not be treated as having excess business holdings, even if all remaining shares are held by a disqualified person. (For purposes of the 2 percent *de minimis* rule, the private foundation must include with its holdings stock held by private foundations that are effectively controlled by the same person or persons who control the private foundations in question; and private foundations to which substantially all contributions were made by the same person or persons, or their families, who made substantially all of the contributions to the private foundation in question. This rule prevents a donor from creating several private foundations, funding them with stock in a particular company and then using the foundations to control the company.)

Beyond the *de minimis* rule, voting stock in a business enterprise held by the foundation and its disqualified persons must be aggregated to determine whether a foundation's ownership position exceeds permitted holdings limitations. (Disqualified persons in this context include the founders of the foundation and their spouses, lineal ancestors, children, grandchildren, great grandchildren and spouses of children, grandchildren and great grandchildren.) In general, private foundations may not hold more than 20 percent of the voting stock of a corporation— including the voting stock owned by all disqualified persons. The foundation can, however, own any amount of nonvoting stock provided that the aggregate of all voting stock held by disqualified persons does not exceed 20 percent of the corporation's voting stock. (The permissible level of holdings increases to 35 percent if effective control of the enterprise rests with one or more persons who are not disqualified persons with respect to the private foundation, and the foundation and all disqualified persons together do not own more that 35 percent of the voting stock of the corporation.)

Moreover, direct ownership by a disqualified person is not necessary in computing the holdings of a private foundation or a disqualified person. In general, any stock or other interest owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, is considered owned proportionately by or for its shareholders, partners, or beneficiaries. Thus, if any of those individuals is a disqualified person, the stock owned, for instance, by the estate or trust of which they are beneficiaries, must be aggregated as stock owned by the foundation when applying excess business holding rules. Thus, the sweep of inclusion and aggregation is broad.

Any foundation found to have exceeded its permitted holdings and, thereby, to have violated the excess business holdings rule, must dispose of its excess business holdings. Failure to do so subjects the foundation to a 10 percent initial tax on the value of its excess business holdings. In addition, if the foundation does not dispose of its excess business holdings after payment of the 10 percent tax, it will be subject to a 200 percent tax on its excess business holdings. This is clearly a confiscatory provision. Fortunately, foundations that have acquired interests in a business enterprise by gift or bequest have a grace period of 5 years after the receipt of stock in a business to dispose of excess business holdings before any tax is imposed. Moreover, the Internal Revenue Service may extend that five-year period for another five years if the foundation shows diligent efforts to dispose of the holdings and a plan to do so.

Because of the complexity of the rules regarding excess business, advice from expert legal counsel should be sought by any donor considering giving or bequeathing an interest in a closely held company to a private foundation.

Source: Adapted from Antonia M. Grumbach, "Funding a Foundation: What Assets to Use: Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Dollars." National Center for Family Philanthropy, 1999.

Strategies for **Timing Contributions**

STRATEGIES FOR TIMING CONTRIBUTIONS	ADVANTAGES	DISADVANTAGES AND OTHER CONSIDERATIONS
Fund the foundation with one lump-sum gift.	Clearly establishes the scope of grantmaking; simplifies transaction costs.	Grantmaking program may not yet be defined; personal circumstances (e.g., recent decline in wealth) may dictate lower amount or funding phased-in over time; deduction limitations based on donor's adjusted gross income may limit deductible amount of gift.
Fund the foundation through a series of periodic contributions.	Allows for unforeseen personal circumstances and the development of a grantmaking program.	Fewer funds may restrict grantmaking; operating costs are generally proportionately higher.
Establish the foundation at a low asset level, and fund it fully through a large bequest.	Allows for changes in personal circumstances; permits donor to have use of assets during his or her lifetime; provides donor with a window on how the foundation will be governed and managed.	Delays philanthropic impact; heirs may have other expectations that could disrupt family unity; after the foundation receives the bequest, the donor's original mission may not be carried out.
Establish a pass-through foundation, with the founder (or family business) making annual gifts that support grantmaking and operations.	Very flexible because specific timing, amount and scope of program are not set; allows foundation to be responsive to unforeseen needs such as funding to assist with needs resulting from the 9/11 tragedy.	Makes the establishment of a philanthropic program more difficult; does not foster partnerships with other foundations as readily; can limit ongoing strategic focus.
ALTERNATIVES/OPTIONS FOR ASSETS TO FUND THE FOUNDATION	**ADVANTAGES**	**DISADVANTAGES AND OTHER CONSIDERATIONS**
Cash or publicly held stock	Liquid and no valuation problems; cash gifts allow for deductions of up to 30% of adjusted gross income, stock gifts allow for deductions of value of the stock at the time of the gift of up to 20% of adjusted gross income.	Can be a problem if donor is left with non-income-producing, illiquid assets.
Real estate	May be good income producer; can diversify a portfolio of securities; allows for deduction of up to 20% of adjusted gross income.	Difficult to value and requires day- to-day management. Ability of charity to use property in its operation may be limited. Potential self-dealing issues may be raised for certain uses by a related entity.
Closely held stock, including an interest in a family enterprise, or stock in S corporations	Can enhance a family's wealth transfer plan; may produce good income if cash is distributed regularly.	Difficult to value; closely held stock deductible at cost basis only; can involve self-dealing issues and concentration problems.
Art and other valuable personal property	Generally do not affect donor's financial wellbeing directly; may be useful in the work of the foundation.	Difficult to value and possibly to sell; deduction generally limited to cost basis unless donor reasonably expects foundation to use property in a manner related to its exempt purpose..

Prepared by Kathryn McCarthy, Director of Client Advisory Services, Rockefeller & Co., and Jason Born, Program Director, National Center for Family Philanthropy.

Founders Choose **Different Routes to Funding**

- **Arthur and Abigail A.** started a business together, which was so successful that they took it public. The stock did well. In their mid-50s, they decided to establish a family foundation. They signed the papers of incorporation and the same day contributed $25 million of their stock in the publicly held company to fund the foundation. As trustees of the foundation, they kept grantmaking to the 5 percent minimum payout for 5 years to build assets in the portfolio. Now that the assets have reached $50 million, they have increased the annual payout.

- **Beatrice B.** is an entrepreneur whose income varies widely from year to year. She formed a family foundation with her husband and children as trustees. She contributes to the foundation as little as $10,000 a year and as much as $500,000. As the foundation's assets grow, the trustees adjust grantmaking to meet the 5 percent minimum payout rule. Given the rate of return on the foundation's portfolio, the foundation's assets continue to increase in value.

- **Lawrence L.** worked hard as a lawyer and accumulated a tidy net worth. After talking with his wife and children, he formed a family foundation with zero assets and he, his wife, and their children were trustees. Until his death, he contributed $50,000 a year from current income, which the foundation gave out as grants and used to cover operating costs. In his will, he provided for his surviving wife and his children and grandchildren, and he made bequests to a few close friends, favorite charities, and his law school. The residue of his estate, about $10 million, went to fund the foundation.

- **Patricia P.** received substantial assets when her highly successful husband died. She established a charitable trust to support certain named charities, one of which was a family foundation that she created. The foundation has no assets; it receives $2 million a year from the charitable trust, which it passes through as grants to nonprofit organizations and also uses for operating expenses.

- **Seth S.** took over a struggling family business and built it into a successful international company. He and his wife formed a family foundation and the same day gifted $10 million in closely held company stock to the foundation. The company immediately bought the stock back from the foundation (complying with the rules regarding purchases of stock from a family foundation), generating $10 million in cash for the foundation.

- **Wendy W.**, who lives alone, inherited $5 million on the death of her aunt, as did each of her four sisters and brothers. Wendy convinced her siblings to join her in forming a family foundation, with each contributing $1 million to fund the foundation. Wendy lived comfortably on her earned income, and continued to contribute 10 percent of her inheritance each year to the foundation in order to build its assets. The other siblings also made occasional contributions.

GOOD GOVERNANCE:
THE FOUNDATION IMPERATIVE

BY VIRGINIA M. ESPOSITO

"Families must realize that deciding to allocate some of their wealth toward charity, picking priorities, and giving away money is only just the beginning…if you want all the benefits, you need to allocate the time and attention and energy to governance — especially if you want this to last across generations."

— The Power to Produce Wonders: The Value of Family in Philanthropy

Nothing is more vital to a family foundation's overall success than good governance. A great board sets the tone for achieving your charitable goals and working with the family to realize those goals. You need the vision and oversight of a capable, highly functioning governance team to set the vision for quality grantmaking, management, communications, and financial performance. And, as effectiveness is the result of attention to governance, so too is the joy that comes from the effort. NCFP research has shown that family foundations that spend at least 20% of their time on board matters spend far less time on personal, sometimes difficult, family matters. Similarly, their satisfaction with the work is markedly improved.

Yet NCFP's research also has shown that philanthropic families are more likely to spend their time and resources on grantmaking and financial management than on governance. This is especially understandable with grantmaking. After all, making grants is why the foundation was created. What's more, it's often easier to get your grantmaking right. *Generations of Giving*, NCFP's landmark research on family philanthropy across generations, found that many families fall into the trap of making grants without an overarching purpose and a guiding visiion. Defining that purpose and vision is essential for good governance — and good governance inevitably leads to better grantmaking.

Any consideration of good governance practices must include making decisions about participation (who will be on the board and how they will participate), board policies, the legal obligations of grantmaking, financial management, the effectiveness of the board, and the roles of individual trustees and any staff.

Governance is a moving target. It will evolve as your family changes and as your foundation work becomes more sophisticated. You will need to revisit policies you adopt now at times of transition in the family and in the foundation. Governance considerations are a continuing part of key board deliberations and decision-making.

In this chapter, we'll explore key aspects of governance and various ways of addressing them. Keep in mind that while there are well-defined legal requirements and ethical standards of governance, there is truly no one right way to govern a family foundation. This chapter offers a variety of governance models with implications of each, taking into account the range of family foundation size, tenure, geography, values, focus, and mission.

A note about terminology: board member vs. director vs. trustee. A non-for-profit corporation, including a private foundation, typically has a board of directors or board of trustees. A charitable trust has trustees. In this book, we use the term trustee to refer to members of a board of either a foundation or a trust.

Being **Good Stewards** of a Public Trust

While families understand they can be in control, they must also understand that comes with expectations. You are expected to act in the public interest. The great challenge for the future is meeting the ongoing need for education of donors and families that will play on their ability to be successful stewards to the vast resources that have been committed to the public benefit.

— The Power to Produce Wonders

The title "trustee" means to hold something in trust. But the motivational and practical meanings of trust bear further examination. The late philanthropic leader Paul Ylvisaker once said that family foundation trustees "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."

David Dodson, who has served on the boards of multiple family foundations, put it another way. "We are trustees over several forms of philanthropic capital, and that capital is what we have to deploy for the betterment of the common good." Dodson believes trustees have a role as stewards to "hold in trust the values and assets of the foundation. Trustees need to build trust inside and outside the organization, so that the foundation maintains a healthy and respectful relationship with all who are touched by its activities." These are heady responsibilities indeed. (Note: For more of David Dodson's essay on trusteeship, see page 282.)

What Does It Take to **Be a Good Trustee?**

At your next board meeting, ask this question and generate a list of qualities and expectations of a good family foundation trustee. Then compare your list to the one developed by the late John Nason in his seminal book, *Foundation Trusteeship: Service in the Public Interest*.

Qualities of a Good Trustee:

1. Interest in and concern for the foundation. The job is too demanding for anyone who lacks a fair degree of enthusiasm for the task.
2. An understanding of the area of the special-purpose foundation and a broad perspective on the problems of society for the general-purpose foundation.
3. Objectivity and impartiality. The board table is no place for special pleading, for temperamental bias, for personal whim. The trustee is judge, not advocate, save with respect to donor's priorities.
4. Special skills and competence among its members: management; investment management; familiarity with budgets; and knowledge of the law.
5. A capacity for teamwork, for arriving at and accepting group decisions. Irresolvable differences, the tactics of confrontation, ad hominem arguments, and lack of respect for one's fellow trustees are destructive of intelligent group decisions.
6. Willingness to work.
7. Practical wisdom: the capacity to see the whole picture; to recognize the validity of opposing arguments; to distinguish principle from expediency; and to temper the ideal with what is realistically possible.
8. Commitment to the foundation as a whole and not to special interests or constituencies.
9. Commitment to the idea of philanthropic foundations. No foundation is an island unto itself.
10. Moral sensitivity to the act of giving and to the need for giving.

Basic Obligations of a Trustee

At a minimum, good governance ensures you avoid legal trouble. Some of the policies you adopt can keep you compliant with federal and state laws covering nonprofits and private foundations. Every board member is responsible for understanding the foundation's legal obligations, particularly in matters around self-dealing. It is equally important that boards understand they all share accountability for all foundation actions. For example, if you offer individual board members the opportunity to make discretionary grants, the full board is still responsible. If a legal problem arises from an individual's discretionary grant, it is a legal problem for the full board. **(See the chapter on legal issues, page 68 for more details.)**

Perpetuity: A Fundamental Question

One key question that will affect many of your governance decisions is one that most boards never even consider—whether the foundation should exist in perpetuity.

The life span of a foundation is not always the founder's choice. For example, some third-generation foundations are finding that perpetuity isn't easy and are now considering limiting the life of a foundation that might have been intended to exist forever. Future trustees may split the foundation up, set a spend-out plan, or turn the assets over to another entity.

Review your commitment to perpetuity regularly — and the overall goals for your family's foundation — and make policy accordingly. Some boards of perpetual foundations set times, for example every three years, when they will discuss whether this is still the right course based on current conditions. If at any point you decided to be a limited-life foundation, consider the implications this decision will have on your grantees, your investments and spending policies, and the membership and terms of your board.

Structuring the Board

The late Margaret E. Mahoney was the first woman to head a major foundation—The Commonwealth Fund in New York City.

> *"Responsible boards are not born. They are composed carefully. A board must be large enough to be diverse, yet small enough to be deliberate. Certain personal characteristics of board members are essential — competence, integrity, intelligence, judgment, and empathy… A foundation needs trustees who can work together productively, but it does not require that they be unanimous in their opinions or uniform in their outlook… A foundation's extraordinary potential for good springs from its board's ability to act as a collective, to be cohesive in fulfilling its public trust. As Alfred North Whitehead remarked, '**No member of a crew is praised for the rugged individuality of his rowing.' Success in fulfilling their collective responsibility lies with trustees recognizing that the act of giving is secondary to the importance of the work supported**."*

So how do you compose that team? Start with your goals—both for family participation and for the charitable impact you want to have. The two fundamental questions for both new and established foundations are:

1. "Who is family?"
2. "On what basis will family members be selected for involvement?"

Articulating the eligibility requirements for participation and the method by which family members will be chosen for participation are critical to the process, and the earlier in the formation of the foundation, the better. It is easier to think about the best interests of the foundation board in the early days. The family will grow exponentially as, perhaps, will your excitement about including on the board trusted advisors, program experts, and those representing the communities you serve. With so many potential participants waiting in the wings, early consideration of the expectations of board members and the qualities you are looking for helps avoid making decisions on the spur of the moment.

Early decisions about who gets to sit on the board, whether board members serve terms and/or require rotation, whether you offer discretionary grants, and many other practices are often determined based on what will be fair to the family members. But is such fairness even possible?

Many of the choices you will make in founding and leading a family foundation arise from your response to a fundamental question: Does the family serve the needs of the foundation or does the foundation serve the needs of the family? It doesn't have to imply rigidity or extremism but your view of that distinction may be your overarching and defining value.

Fairness Is an **Elusive Goal**

The most successful boards develop family structures that serve the interests of the foundation and the giving —while also serving the family's interests. The primary goal is to ensure family members are ready, willing, and able to do the considerable work involved. But it is easy for emotions to come into play as you look to your children, grandchildren, and others and realize that you are not Solomon. Rather than "divide the baby (or babies)," you include everyone. After all, that may be your definition of family fairness.

As many family foundations find it fair to include everyone, a great number of families think the fair way to bring on the third generation is to develop a system of choosing members based on branches of the family. The subtle irony is that, while the foundation was created by the first generation founder, branches are most often determined based on the members of the second generation. As branch alliances drive board participation, board members may begin to find more of an identity in the branch they represent rather than from the values and priorities of the founder.

Finally, particularly with family foundations that have no central mission or hometown focus, boards have often traditionally been built based on geographic location — where family branches or members live. As family members move to a variety of locations, structuring the governance and giving to represent the various communities where families live and work (and volunteer) seems practical — and fair.

These three routes to fairness are employed by many family foundations — and, for many of them, they are working out just fine. In fact, they may be perfect for some families — particularly in the first and second generation — and they may continue to work out for some time.

It is likely, however, that there will come a time that the number of family members and the numbers of hometowns grow beyond the point where they are easy to manage effectively. If you intend to exist in perpetuity, there will likely come a time when a structure based on Generation 2 means little to descendants who have no direct connection to that generation.

As you work to achieve the right path to fairness for your family, consider this great guiding question:

How do we build the board that this foundation deserves?

The answer does not have to be inconsistent with family interests but it puts the emphasis where the public trust implied in the private foundation compact requires: on the good stewardship of this precious resource and privilege.

Who is **Family?**

Each founder and early board must address the question of just "who is family?" More specifically, you should aim to consider the following questions:

- Who are we as a family and what culture are we trying to create?
- What do we hope to accomplish with our giving — for our community and for our family?
- What kinds of talents and perspectives will we need to do that work?
- And, in terms of participation and governance, which members of our family (now and in the future) will be considered?

The answers to these questions will form your "pool" of potential board members.

When it comes time to choose trustees, as well as staff and advisors, who is included in your definition of family? Extended family members can add richness — and controversy — to the mix as you consider the possible roles of spouses, cousins, adopted and stepchildren, nieces and nephews, unmarried partners, and others. As one long-time family trustee once asked, "Are we talking about family of the heart or family of the blood?"

A founder once asked for help in reviewing his donor legacy statement. A review of his new foundation's statement and the bylaws revealed a terrible inconsistency. While he was clearly devoted to his four-year old grandson, who had been adopted, the bylaws inexplicably limited board service to blood relatives. When it was pointed out, he immediately had the bylaws amended. Sadly, the founder died a very short time later, but his grandson can one day take a special seat at the board table.

No category generates as much conversation and excitement as does the question of including spouses. For every foundation that fervently believes that spouses should be eligible family members (and may look to in-laws to serve on the board and even as executive directors), there are those who are concerned about fairness when some are unmarried or others are worried about the permanency of marriage. In any case, the time to consider spouses for board participation is not when your first family member becomes engaged. It is impossible not to make a decision based on your affection (or not) for the soon to be in-law.

Many founders confine board membership to blood relatives (sometimes called lineal descendants). The reasons most often cited are limiting the pool of candidates, assuring loyalty and adherence to donor intent, trying to avoid the pain of divorce or second marriages, and wanting to do the work with those that knew the founder best. In the face of escalating family expectations and increasingly unwieldy numbers, donors and family leaders may have to make difficult but necessary decisions about eligibility.

One way to reduce hurt feelings is to entirely eliminate any excluded categories of family members and make all (or most) of those connected to the family eligible to be in the pool of those who can be considered. What determines who is pulled from the pool is found in the list of qualities, responsibilities, and expectations you develop.

The NCFP Knowledge Center contains several resources to help you consider a host of ways to look at family participation including the Passages issue paper *Families In Flux: Guidelines for Participation in Your Family's Philanthropy.*

Members from **Outside the Family**

Some foundations don't confine board membership to relatives. Some include trusted family friends or associates such as the family attorney or financial advisor. Some reach out to the community to include people with expertise that family members may not have. They may seek financial or program expertise or someone chosen to reflect the communities to be served. Others may look for diversity in race, gender, geography, class, ideology, or other perspectives that add to the board's richness.

These board members—often called independent, general, or community trustees—are usually regarded in the same way as family board members. However, some families put them in a separate category and may confer different term limits and voting privileges on them. Family foundations that offer discretionary grants may offer these grants only to non-family board members as a thank you for their service; others may offer only family board members this privilege or offer larger discretionary grant amounts. (For more on discretionary grants, see Effective Grantmaking: The Fulfillment of Your Mission.)

Some families worry that they'll always defer to the expert if one is on their board. This can be averted by looking among grantees with whom you've had a long and trusting relationship. If your concern about experts continues to make you nervous, you might prefer to invite experts occasionally to speak at board meetings or to serve on a board advisory committee.

Susan Packard Orr, chair of The David and Lucile Packard Foundation, asserts that the general trustees on her foundation's board eased the difficult transition after the deaths of her parents, Lucile and David. It was a general trustee who suggested to David Packard that he provide guidance on succession, including naming his successor as chair. Susan always states that the general trustees helped the siblings move forward both in sensitive governance and program matters.

Of course, for some families, a board member from outside the family is just the best way to ensure that everyone rises to the professional behavior required for constructive deliberations. The "company for dinner" dynamic minimizes the urge to play out family patterns. Katharine Mountcastle, of the Mary Reynolds Babcock Foundation, was once asked what it was like to have the wise family foundation expert, Paul Ylvisaker, serve on the MRB board. "Oh, that's easy," she said. "We all behave better when he is around."

Trust is at the heart of board relationships — family members and others. A strong vetting and selection process, along with terms and rotation, can build on that trust and provide a strategy for managing less successful relationships.

Creating **Eligibility Criteria**

Once you have determined the categories of people in your pool, you can move to the question of how people in the pool can become eligible for service. A shared set of eligibility requirements and expectations increase the likelihood that:

- Board members come with reasonably shared ideas about the nature of the work.
- They know why they are qualified to do that work.
- Each member knows and commits to what is expected of them in fulfilling their responsibilities.

For people to be eligible, you might set a minimum age, require evidence of interest in the foundation's work, and require attendance at conferences or service on a foundation committee, for example. Some foundations have an application form for prospects to complete.

Sample Eligibility Criteria from the Leighty Foundation

Board membership is open to direct and adopted descendants of the Founder and their spouses and life partners.

Threshold for consideration for Board Membership is age 24.

Upon successful completion of some of the following, the Board will consider the person eligible for Board membership:

- Taking the lead on at least one grant request through the funding process from invitation to grant evaluation.
- Completing each of the following during the above process or separately: a site visit, invitation of a grant proposal, review of a grant proposal, presentation of a proposal to the Board, personal contact with a grantee regarding grant acceptance, evaluation of the grant results.
- Preparation for and participation in at least one annual Board meeting.
- Attendance of at least one conference on family philanthropy.
- Completion of readings selected by the Board and/or the potential Board member.
- Creation of a personal statement of philosophy regarding philanthropy.

All the above may be done in any order. There is no time limit for the completion of the above. Keep a record of your experiences which will be of personal value and could assist you when you decide to apply for Board membership.

The **Nomination** Process

Once you have a pool and criteria to judge eligibility, you still need a way to choose board members. Some ask interested members to submit an application. Others use a more informal process. In small families, board members may need to be recruited—but not pushed. Whichever path you choose, you want people who are genuinely motivated to serve.

Similarly, you may have potential trustees who are not in a position to take on the obligations of board service at the time you ask. Education, career, and family considerations might cause them to defer. Their appreciation of the need to meet their board responsibilities is only a good sign and circling back for an invitation at a better time could be a smart move.

As the family expands and the pool of eligible—and interested—board members grows, there may be need for a Nominating or Governance Committee to manage the work. It's not necessary for all Governance Committee members to be current board members, but the chair and at least some others should be. That committee might also be asked to nominate a board chair and/or other officers. The Governance Committee often takes charge of new member orientation and preparing potential future members for service. They may also develop board performance goals and reviews.

Who **Votes?**

Typically, all board members vote on new board members and officers such as a treasurer and a secretary. Some large families use a system where a broad group makes up the foundation's "members" and they elect the trustees. Also, it's wise to allow for the possibility that the board may want to vote to remove someone from the board, for anything from lack of attendance, mental incapacity, breach of duty, or violation of the law. The removal process should be spelled out as part of your board selection process.

As mentioned earlier, some families assign board seats by branch of the family. They may even delegate board appointments to the branches in a decentralized nomination process. In such cases, the system — and the whole board — functions best when there are shared criteria and responsibilities. Further, it is more efficient if the terms and rotations ensure the board has the continuity and leadership succession planning it needs to function well.

One large family foundation has a history of branches choosing members and rotation. A larger branch of the foundation rotated its members every year to accommodate more individuals. Such a term did not allow a learning curve, nor did it offer a chance for individuals to provide leadership. There was also awkwardness and resentment that other branches allowed terms of up to six years. A board structure that doesn't coordinate terms and rotation among dispersed appointing authorities can prove to be problematic. One foundation found themselves dealing with an unexpected rotation of more than half the board just before a major financial crisis occurred. When they most needed a calm, capable, and experienced board, a board of newcomers created more panic than necessary.

Board **Size**

There is no one right answer to how big a board should be. As with other aspects of governance, the decision should link back to your goals. Research tells us the average family foundation board is about 5-7 members, with larger boards supporting foundations with greater financial assets. However, there are many variations and exceptions to this profile.

As Margaret Mahoney wrote in her seminal essay on trustees, your board size should be small enough to allow for effective deliberation, but large enough to bring a variety of perspectives to the table. By focusing on the work to be accomplished, rather than how many family members want to participate, you're more likely to strike the right balance.

If a family is very small, it might choose to be small and nimble or to increase its numbers and strength with community trustees. Large families need to set up a structure so that as the family adds generations and members, the numbers of eligible people serving at one time does not become unwieldy. This inevitability for foundations that opt for a longer, even perpetual, lifespan is a strong mandate for rotation, at least upon reaching the third generation (perhaps later for a particularly small family).

This encouragement would have served a small New England family foundation well. Having determined early on that every blood relative could serve on the board, the organization reached a day when there were 107 board members for a $2 million foundation!

A better alternative, in families where inclusion is a priority, is to find ways other than board service for members to be involved. Family members can serve on a committee, conduct site visits, provide research on an issue the board is grappling with, or produce an oral history of the family and the foundation.

Some foundations specify a specific number, while others set a range. If the size of your board is spelled out in your bylaws, rather than just a policy, you'll need to amend the bylaws if you decide to change the size at a future date.

Succession Planning

Now that you have a board, what will the future look like? Any foundation that plans to continue beyond the first or second generation inevitably deals with the issue of succession. In the past, donor families were told to prepare for the succession of their next generation when the senior family members were close to retirement and needed to pass the baton to younger ones (even if those younger members of the next generation were in their 50s and 60s!).

This practice has long been abandoned by most family foundations and the advice is no longer sound, if it ever was. Family members are living longer, active lives. It may be those in a retired or semi-retired state that have the most discretionary time to give to foundation duties. Younger family members have shown themselves to be intensely interested in philanthropy and are both anxious to learn, to bring new and bold ideas, and to do the work all that entails. Also, because people are now marrying and having children at a variety of ages, it's not unusual for a single generation to span more than 30 years. Most importantly, younger people may learn from and be inspired by the experiences and mentoring of veteran family members who are willing to share authority. The successful multi-generational family philanthropy learns to share the baton and value the perspectives, the leadership, and the participation of all.

See Engaging the Next Generation for more on succession planning and making room for new members on the board by creating new roles other than board service for long-time members.

Conditions of Board Service

It's both a wise and excellent practice to have job descriptions and explicit expectations for the board as a whole, for individual board members, and for officers. This helps avoid misunderstandings and also can be used as a basis to assess performance.

A typical board job description might spell out responsibilities such as:

- Conduct the business of the foundation in accordance with the law. Ensure that federal and state operating and reporting requirements are met in a timely manner.
- Formulate and periodically review the foundation's mission, goals, and policies.
- Manage and regularly assess the foundation's finances and approve an annual budget.
- Approve investment policies and review investment manager reports.
- Solicit, review, and take action on grant requests from non-profit organizations.
- Evaluate grants to ensure effectiveness and use of funds.
- Recruit and orient new board members and evaluate board and individual trustee performance.
- Recruit and hire the CEO, support him or her, and monitor and evaluate performance.

Job descriptions for individual trustees might spell out requirements for supporting the foundation mission, committee service, attendance at board and committee meetings, site visits, financial contributions to the foundation, preparation, and the attitude/professional demeanor expected. Frequently, boards are at a loss for the best strategy to deal with a difficult or non-performing board member. Having expectations in writing and agreed to prior to accepting a board position, provides an obvious and objective way to deal with non-compliance.

Board Member **Expectations Statements**

Morgan Family Foundation (2004)

Individual members of the board are expected to:

- Prepare for and attend the meetings of the board (by video conference, conference call or in person)
- Participate in site visits to both evaluate potential grantees and assess results of grants awarded
- If additional responsibilities as an officer, committee member or committee chairperson are accepted, give the additional time and attention required by the position for committee meetings or other related business
- Engage in ongoing learning in areas of interest and expertise, and put that knowledge to work for the foundation
- Serve as catalysts for information sharing with fellow board members and foundation staff, particularly in helping to identify potential grantees and issues that could impact the foundation's grantmaking in the member's home community

Needmor Fund (2012)

Each Board member is expected to:

1. Participate in Board meetings and committee meetings;
2. Be prepared for Board meetings and committee meetings; receive and read materials pertaining to Board meeting discussions;
3. Attend at least one site-visit and/or Needmor retreat, annually; and
4. Make a best effort to be responsive to the office and others regarding Board business

NCFP's Trustee Education Institute is designed to expose board members to key issues around grantmaking, financial/investment management, and foundation law. Although it was originally designed for new members, many seasoned members have found it to be an energizing review of service and an opportunity to learn, about new trends, research and the like.

New Member Orientation

New board members are best served when all new members have an orientation that includes the history, mission and program priorities of the foundation. This gives each member a common grounding in the work they are being asked to guide. It also helps members see themselves as part of a whole, not just as representatives of a generation, branch, or family group, or as a program or operations expert. New members also need a primer on the foundation's financial management and investments, the legal obligations of the foundation, and basic documents such as bylaws and the foundation's policies. The chair or Governance Committee may take charge of this, with help from staff if available. Current board members can help with this as well.

Many families invite the whole board to attend the orientation because it can be a good refresher for veterans and they may learn something they hadn't thought of from the questions the new members ask.

Term Limits and Rotation

Term limits provide more opportunities for others in the family to serve, rather than a few entrenched trustees, and ensure that the board stays fresh with new ideas and energy. Some board members like to be term limited so they know in advance what the job will entail and for how long. Term limits also make it easier to remove a board member who isn't functioning at a high level.

It's best to consider the issue early. You don't want to wait until your aging aunt is having health and memory issues to consider an age limit. Voting on term limits at that point is likely to be hurtful.

That doesn't mean the rotation rule has to apply to everyone evenly. Increasingly, family foundations are bringing on the third generation with term limits while promising that the founding generation and their children can stay on for life, as they wish. This practice provides a special bridge between the founders and future generations, ensuring that those who knew the founders best pass that legacy and intimate knowledge onto their children and grandchildren.

Some foundations create shorter term limits for community trustees than for family members. They may also limit certain categories of trustees, such as younger generation members, to provide an introductory experience and more opportunities to others.

By giving non-family trustees different term lengths than family members, you can rotate different perspectives into board deliberations over time. If, for example, you are funding in a particular focus area, it's often helpful to have someone with expertise in that area on the board. By setting a term limit of two or three years, you'll be free to renew that term or seek a different person with fresh perspectives or knowledge.

Families that use a rotation system typically have representatives from specific generations or individual branches rotate membership every year or two. It's helpful to stagger rotations so that when new trustees come on the board, there are still several left to ensure continuity and institutional memory.

Payment for Board Service

The complex issue of whether to pay family foundation board members for their service is a long-running debate. Most family foundations don't compensate their board members. NCFP's 2015 research, *Trends in Family Philanthropy*, found that only 15% of respondents report doing so. But many reimburse board members for travel costs and other expenses incurred through their board service. In addition, it is perfectly legal to compensate individual board members for serving as the foundation's staff or for providing specific professional services such as the legal, banking, or investment activities the foundation needs as long as the fees are reasonable and necessary. See the Legal chapter (page 68) for more on compensation.

Note: Trustees must declare as income any reimbursements not considered a requirement for board service, such as a spouse's travel to foundation events, child care, etc.

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Pros and Cons of Compensating Board Members

Reasons you may want to compensate board members:

- To encourage participation of younger family members and branches that are less well off financially than others. For example, if members have to take days off from work to attend board meetings, participation can be a financial hardship.
- To recognize the extraordinary service and commitment of trustees.
- To encourage all board members to treat their roles and responsibilities seriously and to participate regularly.
- To promote an understanding that all board members are expected to provide staffing and management services for the foundation.
- To encourage non-family members such as community representatives or experts to serve.

Reasons you may not want to compensate board members:

- Serving on the board is considered a privilege that few individuals have.
- Compensation is at odds with what the founder wanted.
- It may prompt criticism about the foundation and its board.
- It goes against the concepts that foundations are voluntary charitable institutions serving the public trust and therefore board service should be viewed as volunteer work.
- It is likely at odds with your expectations of board members of other voluntary institutions.
- It takes away from the amount that can be distributed in grants.
- It increases the chance of more government oversight of the foundation and the field.
- It may cause divisiveness in the family. If board service is already considered a privilege only for some, compensation may add to that tension. In addition, family members may become dependent on the compensation as a source of income, jeopardizing the effectiveness of their service and board rotation policies.

Avoiding Self-Dealing

Any discussion about money paid to trustees must also include the issue of self-dealing, which is prohibited by IRS rules. This is defined as almost any financial or business transaction between the foundation and any foundation insiders, called "disqualified persons." It is intended to prevent abuse of foundation assets. Such transactions include sales, loans or leases between such insiders and the foundation.

It is important for every foundation board member to have a basic understanding of the self-dealing rules. It's also advised that you consult with legal counsel before enacting compensation policies to make sure you are staying within the law. For more on disqualified persons and self-dealing, see the Legal Chapter.

Effective Board Meetings

Many foundations start out conducting their work informally around a dining room table. But as time goes on and the responsibilities increase, meetings become more formal. Here are several core components of effective meetings:

➜ Frequency of meetings

How often your board meets should be a function of the work you need to accomplish. Some boards meet in person once a year and have occasional conference calls in between. Others might meet in person every other month.

There is no IRS requirement for how often a family foundation board should meet, but state laws address this, according to Andras Kosaras, associate in Arnold & Porter LLP's Tax Practice group. "If your foundation is formed as a nonprofit corporation, you look to the state's nonprofit corporation statute. They typically require at least one board meeting a year. But if you were formed as a trust, the foundation can basically write its own rules." He usually recommends boards meet quarterly, but added that those don't have to be in-person meetings since most state laws allow meetings using teleconferences or other electronic technology.

➜ Agendas

Typically, agendas are prepared by the board chair in concert with the CEO (if there is one). Any board member should feel free to suggest an item for the agenda. It's a good idea for the chair to regularly ask board members about any issues they'd like to see come before the board. The full board should approve the agenda at the beginning of the meeting.

If board meeting agenda items have become overwhelming or you wish to keep the board's main focus on the policy and accountability functions they alone can see to, you can use a consent agenda. With a consent agenda, a section of the main agenda listing routine items, such as minutes from the previous meeting or small grants, is approved all at once with no discussion. But before you vote, first ask if any trustee wants to pull an item off that list for separate consideration. Most agendas also include time frames for discussion of each item, who will facilitate it, and what action is needed. Without proposed time limits, board meetings can go off track and later agenda items don't get the thoughtful consideration they need. If the allotted time isn't enough to adequately deliberate an issue, the board can vote on whether to extend the time.

What should be on the **board agenda?**

- **Opening thoughts:** Start with something inspirational. For example, read a quote from the founder or ask a member for something they are proud of about the foundation or something they hope is accomplished at this meeting.
- **Approval of Minutes of the previous meeting.**
- **All other items should be "board worthy:"** If an item is just for information, you can often put it in writing and send ahead of time so it's either not on the agenda or only raised if board members have pressing questions.
- **Balance agenda items among the board's key responsibilities:** Policy setting and accountability of management, grantmaking, and governance. Sometimes boards focus mostly on approving grants, giving short shrift to the other two.
- **Learning opportunities.**
- **Close with reflection.**

Making time for family

There is great value in remembering the foundation is a family enterprise. Therefore, when the board comes together, a little pre-meeting time or an informal meal could be the opportunity to ask each other "What's been going on with you, personally? Professionally?" Board meetings are not designed to be family reunions, but it helps your deliberations to remember that you have shared history.

Family gatherings can play an important role in keeping the extended family in touch. But be cautious: keeping the family together is a responsibility and may be inappropriate for the foundation to bear, even when that is partly why the founder created it. The foundation should not have the sole responsibility of ensuring family connectedness nor be the sole repository of family history.

Voting

In some foundations, decisions are made by majority rule. Others strive to reach a consensus among trustees. If you choose the latter, one way to reach consensus is to take a straw poll, and when there is a clear majority on one side, give the opponent(s) an opportunity to express their views. Then ask their level of discomfort on a scale of say, one to five, with one being firmly opposed and five being "I can live with the others' decision." Often, people in the opposing camp just want to be heard, and once they are, they can accede to the wishes of the majority.

Staff recommendations

If you have staff, you'll likely want to seek its input on the issues on your agenda. But the degree to which boards act on that input varies. Board independence and taking best advantage of your trusted staff are not mutually exclusive. Some foundations want program officers to make recommendations on grants and may even give the CEO and staff the ability to approve grants below a certain level. Other boards prefer neutral presentations with pros and cons, allowing the board to ask questions but, ultimately, make its own decision.

Committees

Many boards create committees to help ensure the work is done well and to spread the workload among members. Typical committees include:

- Governance
- Nominating
- Grantmaking
- Investment and Finance.

Some foundations also have an Executive Committee, which typically includes the officers and maybe one or two other board members. This committee may be charged with crafting the agenda and also be authorized to act on behalf of the full board between meetings if something requires a timely response. The committee members' decisions should be ratified by the full board at the next meeting, and in no case should the committee's authority extend to amending bylaws or any other actions not permitted by law.

One risk of having an Executive Committee is that it may result in the full board feeling like it's just a rubber stamp for decisions the committee has already made. This can lead to discontent and disengagement among the board members who are not on the committee. The extent and limits of the Executive Committee should be well understood and adhered to. Ad hoc committees can serve a limited and specific function. For example, a CEO Search Committee will be needed from time to time.

Committee reports should be on the agenda but need not take up board meeting time unless action on a recommendation is required. Routine reports can be submitted in writing to trustees ahead of time. One advantage of having committees is that they give non-trustees ways to be involved in the foundation's work.

For example, some boards recruit outside expertise with special skills for their committees or use committees as a training ground for younger family members hoping to join the board someday. Committee members who aren't board members may have a full vote or be considered ex officio.

➜ Minutes

Every meeting of the foundation board should be recorded in minutes. This is helpful if you need to refer back to previous actions, but also are an official and legal record of the directors. Minutes should include, at a minimum, the date and time the meeting was called to order, who was present and absent, any corrections to the previous meeting's minutes, motions approved or voted down, items that were tabled, actions you agree to take or next steps, the date and time of the next meeting, and time you adjourned. (Note: See chapter on management for more on record keeping.)

➜ Learning opportunities

Board meetings should not be all business. Members will stay fresh and better informed if every agenda includes an educational component. This could be a guest speaker with expertise on community needs, information about a current grantee's program, or the latest research on one of the foundation's funding priorities.

Board **Reflection, Assessment, Renewal**

A high-functioning organization regularly asks itself "How are we doing?" For a family foundation, this might be as simple as asking at the beginning of the year "What would we like to accomplish?" and, at the end of the year, asking "Did we do it?"

But too often, boards that are keen to assess the effectiveness of their grantees may not find it quite as easy to seek honest feedback about their own performance—both the board's and the individual board members. If you're avoiding it, you are missing an opportunity to stay fresh and find ways to strive for greater levels of effectiveness. If you're willing to be bold in assessing your performance, your results are likely to be better than you thought possible.

If things are going pretty well right now, it's a terrific time to reflect. Have a conversation about what got you here and what you can do to maintain — and even increase — momentum. What have you been doing that has made this a great period? What do you want to make sure you continue to do? How do you sustain this good feeling? Look out on the horizon for issues that may be coming up and use your "era of good feeling" to begin preparing. You're more likely to make decisions in the best interests of the foundation from a feeling of strength rather than one fraught with concerns, insecurity, or fear.

If things seem to be okay but there are issues or transitions in the offing — use this time to get ahead of them. Maybe you need to get a better handle on what is coming and the strengths you have to build upon. A good board retreat or a family foundation self-assessment process can help you articulate what makes you good, what needs to be improved, and what opportunities you want to seize. Such a process—like NCFP's family foundation self-assessment, the Pursuit of Excellence (POE)—can help you do all that and more.

If things are not going as well as you might hope — then roll up your sleeves. Take stock of all the things you have going for you, and mull over which things worked at one time but don't seem to be doing the job any longer.

Perhaps you want to take a new look at the shared values that guide your policies and practice. Maybe it's renewing your commitment to your mission statement or figuring out if it needs a review. How are management and investments serving you and your mission? Might a board assessment re-energize your governance and the commitment of those who serve? Perhaps, like many family foundations in transition, this is a time to find an experienced consultant to work with your family.

(See Assessment and Renewal.)

Planning a **Retreat**

It usually falls to the board chair to plan a retreat with input from staff and the board. Some chairs create a Retreat Planning Committee with two or three board members. Finding a date and a place, sending out notices, and handling logistical arrangements such as ordering meals takes time, so the chair may delegate those tasks. Forming the agenda is the greater challenge. Many foundations seek an outside facilitator. If you do, hire someone with specific family foundation experience. That person can confer with the planning committee to clarify the goals for the retreat and help you frame the issues for discussion. For more information about designing a board retreat, visit NCFP's Knowledge Center at ncfp.org or call NCFP at 202.293.3424.

Family **Dynamics**

If you can't leave the baggage at the door, if you can't come together as a unanimous board of a public trust, it can be a threat to the foundation. But there is enormous opportunity in the very diverse religious and political views that families bring to the table.

—From: The Power to Produce Wonders

Families experience conflict over differences in personality, wealth, geography, communication, learning styles, lifestyles, ideology, religion, and more. Every family has differences, but they don't need to interfere with your board governance.

Often when I'm speaking to audiences of family philanthropists, I'll ask them to name family dynamics. Inevitably, I'll hear sibling rivalry, difficult parent/child relationships and power dynamics, challenging personalities, and so on. Then I remind them that not all family dynamics are negative. With that prompt, audience members suddenly start surfacing a big list of positive family dynamics such as passion, shared history and values, tolerance, and love. Don't let an overemphasis on how you are different keep you from appreciating and building on how you are alike.

Some people assume there is a lot of conflict on family foundation boards. While that's true in some cases, NCFP's landmark research *Generations of Giving* found little evidence of conflict—but a great deal of conflict avoidance. Trustees are afraid to bring up an issue, such as term limits for board members or assessing individual board performance, because they fear feelings will be hurt or the conversation will be awkward.

But deferring tough decision-making can lead to complacency. When boards decide to address the elephant in the room, it's often not as scary as may have been believed and a burden can be lifted. An important step in managing challenging dynamics is to determine early on what is appropriate for the boardroom and what is personal family business. To the extent family issues come up to the detriment of foundation work, talk openly about what those tensions are.

Ideas for managing family tensions:

- Focus on what unites and inspires you, not what divides you. If the foundation has articulated common goals, values, and grantmaking priorities, it's easier to find consensus. If some board members are frustrated because they have personal interests beyond the grantmaking focus of the foundation, providing discretionary grants can be a good release valve if it doesn't overwhelm the shared focus of your grantmaking work.
- Plan in advance to help prevent conflict. Developing a set of policies about board composition, succession, the decision-making process, and the like, can help keep conflicts from arising or festering. Structure your giving program conversations to encourage constructive criticism while minimizing discord.
- Engage outside help when you need it. Even the healthiest, most loving and charitable families get stuck. If you feel like your family and giving program aren't moving forward or conflicts remain unre-

solved, it might be time to involve a consultant. Conversely, a consultant can help a highly effective board with tasks requiring expert and objective facilitation such as strategic planning or managing a transition.

- Let philanthropy be a force for good within your family. Rarely, giving together can be an outlet for irreconcilable differences to play out. Keep that in perspective though. Philanthropy is more often a place where families come together to do something good. The actions of a family who cares about each other and also cares about something larger than themselves — the community and causes they serve — can be powerfully inspiring and motivating.

Role of the **Board Chair**

Having an effective board chair may be the most critical key to how well a board governs. It's a role that needs careful consideration so that the person who serves has the leadership skills needed to run smooth, productive board meetings. In some foundations, the chair job is an honorific where everyone gets a turn. Through the second generation, this may be an equitable and effective strategy. But experience has taught family foundations it rarely is the sole or wise criterion thereafter.

There are qualities and qualifications that make someone particularly suited to board leadership. When a difficult situation arises, whether it is a problematic board member or a community controversy with a grant or grantee, a well-qualified chair can mean the difference between managing the problem and having it escalate due to avoidance or mismanagement.

Some of the same principles around choosing board members can apply to board chairs as well. You could set term limits, create a selection process to be used by the Nominating Committee, and have candidates apply. But in a small foundation, there may only be one or two obvious choices. Having a job description at least gives you something to aspire to — and have the candidate commit to. If a board member is going to be elevated to the job but lacks experience leading a group, consider offering coaching. For example, another foundation or nonprofit board chair in your area may be willing to serve as a mentor.

Knowing when to provide for **leadership succession**

When parents are in the difficult position of having to choose which of their children will become the next board leader, one option is to let the next generation choose the successor leader. When Marjorie Fisher, the matriarch of the family and board chair of the Max M. & Marjorie S. Fisher Foundation, realized that the five passionate and committed second-generation members were more than able to take over as chair, she felt it was best to do it during her lifetime and be available to them as they created the next generation of Fisher philanthropic leadership. She then left it to the five to determine how the transition would happen. Her wisdom and generosity ensured a constructive and mutually-supportive board leadership plan.

Chair's **Job Description**

The chair is the foundation's leader and spokesperson. The chair develops the agenda for the board meetings, works with the staff (if any) and executive committee (if there is one), and leads the board meetings.

Other chair responsibilities include:

- Holding individual board members accountable for their roles and tasks;
- Ensuring the board has the information necessary to carry out their tasks;
- Ensuring that information is provided in a clear and useful form and that all board members are treated equally in the information they are given; and
- Acting as the spokesperson for the board in communicating with the staff of the foundation (if any), and with key constituencies.

One additional key skill is the ability to remain neutral and not take things personally. Unlike corporate or nonprofit boards, the foundation's is made up of family members, and that comes with all the dynamics described in the previous section.

Set Agreed-Upon **Ground Rules**

If your board discussions tend to devolve into discord, try using these 'Rules of Engagement' for Family Foundation Board Meetings created by Judith Healey, a longtime family foundation consultant:

1. Learn to listen.
2. Respect the position of others, even when you disagree.
3. Don't talk over one another, and never interrupt. Wait your turn.
4. If the board cannot have an orderly conversation, appoint one of your own as a 'facilitator' and take turns at this office.
5. Keep to the times on the agenda for all topics. If there is unfinished business, or the conversation spills over the allotted time, put it on a "parking lot" and come back to it at the end of the meeting.
6. Try not to be hyper-sensitive about yourself. Don't take every comment personally, even if there is family history.
7. Remain extra sensitive to the feelings of others, and try not to offend. Sibling teasing may be all right for the family dinnertime, but should be out of bounds for the formal meeting.
8. Strive for formality, over familiarity, in all aspects of the board meeting. Pretend you have never met these people before, and that you are trying to impress them.
9. Put these rules in the front of your board book and get the directors' agreement to follow them prior to every meeting.
10. Practice these principles every chance you get.

In some small foundations, the chair also acts as staff. This can create some difficult family dynamics where the board feels the chair has too much power or the chair resents that he or she has to do too much of the work. If the staff job is a paid position, this can get even more stressful. That's why some family members who serve as staff don't also chair the board.

The Board and the CEO: **Establishing and Respecting Roles**

"Few professional roles are more complicated—and less defined—than the family foundation professional…The challenge 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."

— Gary Tobin, former president of the Institute for Jewish and Community Research.

Depending on your assets, structure, and goals, staff may be a necessity or can help lighten the load. You may find it easy to get into the details of staff work or to defer to staff too much. Neither reaction sets the stage for a strong board/staff relationship.

Before hiring a staff person, consider which roles you want that person to play. Alice Buhl, NCFP Senior Fellow and Senior Consultant at Lansberg, Gersick & Associates, suggests your board think about what it sees as its role and what is the staff's role in:

- Intellectual leadership
- Developing vision, mission, operating principles, and 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

How should family foundation boards **spend their time?**

By Phillip Henderson
President, Surdna Foundation

Checks landing in the mailboxes of nonprofit organizations with foundation return addresses have long been considered philanthropy's most important currency. Reflecting that view, family foundations have tended to focus their operations, self-image, and their very reasons for being on getting the dollars out the door.

The National Center for Family Philanthropy's benchmark Trends survey seems to confirm this with the finding that by far the most common activity of family foundation boards is grantmaking deliberation: 90 percent of family foundations, regardless of age or size, indicate this is where they spend most of their time and energy. It's not for nothing that the Surdna Foundation and thousands of other family foundations are called grantmakers: we make grants.

Lurking behind that 90 percent, though, is another story—it's the natural tendency to conflate family governance of a foundation and strategic control of its mission with control of the grantmaking function. What's presumed is that the sole expression of a foundation's work is its grantmaking, and therefore the family's key control mechanism is approving grants.

For smaller foundations with more modest budgets, this can feel right. With smaller staffs—or none at all—where the capacity to engage in work other than grantmaking is limited, this presumption that grantmaking oversight is the right level of governance is often accurate. But many of today's family foundation boards are doing so much more than deliberating about grants.

Before the Surdna Foundation added professional staff in the late 1980s, and really for the 15 years following our professionalization, board meetings were mostly spent reviewing grants. And, our board books were telephone directory-sized tomes with hundreds of pages of highly detailed grant recommendations served up for the board's review and approval. So our board's experience from that era is not so dissimilar to what the NCFP Trends data reveals: our board, at least, was mired in transactional tasks.

But three things happened that changed that dynamic at Surdna. First, the board recruited and developed a high-quality, high-capacity staff and spent a good deal of time building trust that the work staff was doing was deeply connected to making progress toward Surdna's mission.

And, throughout the 1990s and early 2000s, our assets grew, which in turn increased the sheer volume of our grantmaking. But no grant recommendation became a grant until it was approved by the board. So, the board's workload—almost all of it transactional—increased as well.

During this period it became more and more difficult for individual board members to keep track of all the grants they were expected to review and approve. The highly transactional nature of grant approval became more apparent as the volume increased. Many board members were left with a feeling that their meaningful input declined in direct proportion to the increase in the number of grants.

The third change that altered the board's relationship to its work was the introduction of non-family members around the board table. Based on their experience as executives at other foundations, these non-family board members helped other trustees come to the realization that, in practice, the review of grants was becoming a largely ceremonial—almost rubber stamp—exercise. In fact, when they got to talking about it, board members couldn't recall rejecting a grant that was put before them anytime in the previous 15 years. All this is to say, the board's most meaningful engagement was really happening—and should happen—at the level of strategy.

Why are we doing the things that we're doing? Are we making the right kinds of investments? What are the leverage points we see as an institution? These were the sorts of strategic questions that engaged the board and where they had the most to offer. Reviewing scores of individual grants each quarter simply wasn't the best way to take advantage of their knowledge, insight and considerable experience. Nor was it necessarily the most useful unit by which to measure their engagement.

This was breakthrough thinking for our board, which happened as a result of Surdna becoming a larger institution with top-level talent, a well-thought out and strategic mission, and a clear articulation of its program goals. In this context, the board turned its attention to strategy and de-emphasized their focus on grant transactions and approvals. Under a newly revised system of engagement, program oversight, and learning, I now approve all grants under a $200,000 cap, freeing up the board's time to focus on strategy implementation. They have far more time now to focus on the "back-end" of grantmaking—what we're learning, what didn't work as planned, and how we're making progress. And, they continue to "touch the work" through site visits and regular interaction with grantees during quarterly program committee conference calls.

Surdna's board is not unlike so many other family foundation boards whose grantmaking deliberations are really a misnomer. It is spending increasing time and energy where it can have the most effect—on matters of strategy and learning. It's catalyzing partnerships, asking hard questions about impact, asking for evidence—and it's still getting those checks out the door.

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Asking "Critical Questions"

When the Hill-Snowdon Foundation hired its first executive director, the family members made it clear they wanted to stay engaged in the work and continue to learn, go on site visits, have guest speakers at board meetings, etc. They also wanted to make their meetings more productive by focusing on big-picture issues.

As they came to rely more on their staff's expertise in the foundation's funding areas, they reviewed grant proposals in less detail. A board docket of grant proposals several inches thick shrank to one with just two page write-ups for each grant, a key part of which was labeled "Critical Questions" which helped the board focus on how the grant would further the foundation's objectives. Trustees discussed only those grants where they had questions or that the staff highlighted because of their strategic relevance.

Times of **Transition**

Governance is a moving target. What works for your family now, won't necessarily hold up in future generations. This is especially true at key turning points in the life of any foundation, some of which can be fraught with emotion. Some of these turning points include:

- the retirement or death of the donor;
- retirement of a key board leader;
- births, deaths, marriages, and divorces;
- an influx of assets;
- the addition of a new generation to the board;
- a change in the CEO leadership; and
- increasing geographic dispersion of family members.

Planning ahead will make the difference between whether your experience during these transitions is positive or fraught with tension. Make room on your meeting agendas for governance issues.

Play out the "what if" scenario. For example, to get a board to focus on how it would operate if the board leader suddenly died or was incapacitated, one consultant created this scenario for a board retreat she facilitated. She asked that the foundation's donor not attend the first part of the meeting. She then told the board "your donor is no longer with you. What do you do about leadership?" This gives the board a chance to play out some scenarios and think creatively. Afterward, the donor has an opportunity to offer his or her own thoughts, something he couldn't do if the conversation were held after his sudden death.

If you've fallen into the rationalization that "it has always worked in the past," you may need to inject some new ideas and creativity into your governance conversations. The fresh eye of a consultant might also help. So can talking to other foundations and attending conferences where good practices are discussed.

Transitions aren't all bad. They also can be opportunities—to renew, re-imagine, and reinvigorate.

For more insight into preparing for transitions, read NCFP's Passages Issues Brief entitled Family Philanthropy in Transitions: Possibilities, Problems and Potential.

See Management chapter to learn more about hiring and working with staff. Also, much more detailed information can be found in NCFP's three CEO guides:

- Help Wanted, which offers advice on how to hire a CEO;
- The First Year, to help new CEOs and boards develop a strong working relationship; and
- Performance Review, a complete guide to evaluating staff.

NCFP also holds an annual CEO workshop for family and non-family CEOs who serve in the chief staff role and manage the day-to-day operations of family foundations and family offices.

Conclusion: **The Hear, The Head, and The Joy**

This chapter has been devoted to the important responsibility of trusteeship. There is one more aspect of governance work, however, that should not be overlooked.

I was reminded of this many years ago at a philanthropy conference in California. Many very smart people had spoken about what it would take to ensure the future of private philanthropy in America. They spoke of legislation and regulation, public perceptions and support, impact, evaluation, and the like. At the close of the conference, comments were encouraged and a woman who had not previously spoken rose to her feet.

"I have heard so much and learned so much at this conference," she began. "But one thing I have not heard anything about is joy. If I can communicate to my children the joy to be found in the privilege of doing this (foundation) work, I will have done my part to encourage the future of private philanthropy in America."

That woman was Lucile Packard and she certainly had something to do with the remarkable philanthropic work of her children and grandchildren. Joy is too often the forgotten element of family participation and good governance. Yet I can't think of anything more likely to motivate great and more family giving.

When I ask board members what they enjoy most, they are more likely to say site visits than board meetings. And, of course they would! The inspiring work of foundation grantees and the foundation's partnership with them are inspiring and sustaining — through good and difficult times. Governance is both a matter of the heart and the head — the joy and the docket. As Ambassador James Joseph, the family fund donor and former Council on Foundations president, once wrote:

"Pascal said that the mind builds walls and the heart jumps over them. To be in philanthropy is to refuse to accept the heart and the head as antagonists."

Family foundation board members sit at that wonderful, confounding, and joyful juncture. ■

GOVERNANCE AND FAMILY DYNAMICS

Editor's Note: The following is adapted from the National Center for Family Philanthropy Issue Brief "Avoiding Avoidance: Addressing and Managing Conflict in Family Philanthropy" by Elaine Gast Fawcett.

Families who come together in philanthropy bring their strengths, their passions, their identities, and their conflicts with them. Out of fear or out of love, some will go years or decades (generations even!) keeping their differences under wraps and avoiding difficult conversations.

Ignoring difficult matters is a sure path to exaggerating them and giving them more negative influence then they need to have. Bringing up a troubling issue — even if you're unsure how to deal with it — is more productive than pretending it's not there.

Conflict most often occurs when people perceive that there is a threat to their needs, interests, or concerns. Yet conflict is neither inherently good nor bad. It's a natural part of human relationships and a dynamic in all group settings.

For the most part, disputes aren't caused by "bad people" trying to be difficult. They often result from people with good intentions trying to accomplish shared goals.

When treated as an opportunity for growth and creativity, conflict can actually be a positive experience that leads to great outcomes. By developing the skills to manage conflict—early and often—you can create a culture of healthy dissent, and save a lot of frustration and challenge later on.

The Nature of Conflict—
and Why We Avoid It

If conflict isn't bad, then why do we avoid it?

While some people are willing to fight a good fight at a moment's notice, the majority of us tend to steer clear of conflict when we can. This is part of a natural desire to work collaboratively, live in harmony with others, and get along well in society.

In families, there are dozens of reasons why people avoid conflict. First and foremost, it's uncomfortable. The perceived differences, hurts, and misunderstandings among family members may feel so entrenched, so emotional, and so personally risky, that people may choose not to "go there" when it comes to conflict. Perhaps they think: "It's never going to change; why should I even bring it up?" or "Can't we just all get along?"

Some family members might fear escalating the anger, hurt, and drama in a given situation. They might want to avoid criticism, judgment, or being seen as vulnerable. Or they might be afraid of retribution—that if they confront an issue, someone might try to "get them back."

Avoiding conflicts might keep the status quo for the moment, but avoidance ultimately stifles the growth of both the individual and the family relationships. For families who work together in a foundation setting, the stakes are even higher.

Top 7 **Conflicts Families Avoid**

Family relationships among board members can be both a blessing and a challenge. Here are some of the most common conflicts a family foundation board might experience:

Succession

No one likes to think about his or her own mortality or "aging out" of the foundation. Younger generations may feel it's too sensitive a topic to bring up with their parents or grandparents. The kids may be afraid to step into their parents' territory, and the parents may be worried that the kids aren't interested. The result? No one talks about it—or if they do, they are unsure how to go about it.

A family foundation that develops a succession plan early can prevent family difficulties later. Without a clear plan in place, a board may select successors arbitrarily, causing resentment or frustration on the part of those not included.

Access to the foundation

Conflict can also arise over which family members or family branches are chosen as board members. There are only so many seats on the board, which means some family members or branches must wait their turn.

For instance, if one brother is chosen as the succeeding board chair over his other siblings, this may lead to tension, anger, or hurt feelings among individuals or branches. Or if one family branch has more representatives on the board than the others, again, it can lead to suspicion of favoritism or feelings of being "left out."

There may also be resentment between family members who devote a considerable amount of time to the foundation, versus those who just show up to board meetings or don't have as much time as they would like to participate.

Board membership

If "outsiders" join the board, such as spouses, in-laws or non-family members, it may in some cases create uneasiness among selected members of the current board. Some family board members may feel that these new members do not share a common bloodline, history, or reverence for the original donor's intent, which can create a culture of clannishness among family-only board members.

In addition, if there are no set policies about board qualifications, eligibility, and the number of board seats, the lack of clarity may create a perception that the foundation is "up for grabs" for any family member, with any level of education or experience, to join. This can create an awkward situation for both the current board and those waiting in the wings.

Minority rule

In some families, one personality dominates the foundation and board meetings, and the rest of the board bends to meet this person's demands.

If this person happens to be the original donor or board chair, sometimes this is called founder's syndrome. The founder may think of the foundation as "his" or "hers" rather than a public trust governed by the board. He or she may micromanage or have trouble letting go. When minority rule goes unaddressed, it can lead to board (and staff) turnover, internal resentment and fear of the founder/dominant person, and board members who feel they don't have a voice.

Rivalry among siblings or family branches

Rivalry is built into sibling relationships from an early age and can continue well into adulthood—sometimes manifesting itself into long-standing rifts among entire family branches. Siblings are often very sensitive to unequal treatment—either real or perceived—and this can cause eruptions around the board table.

Poor performance and inappropriate behavior

Sometimes family members have personal issues that affect the way they relate to the rest of the board. These issues might be rooted in their perception of the foundation or the wealth itself, or it could be outside issues that present themselves at board meetings.

Poor performance might be anything from missing meetings, not participating even when at meetings, and not following through on what is promised. This could be the result of a board member's busy career and family life, or simply not having time to devote to the foundation. Or, it could be that the member feels obligated to be part of the foundation, even though he or she isn't really interested.

Inappropriate behavior could include any of a range of activities that thwart board operations. Some examples include: spreading misinformation (either deliberately or unintentionally); repeatedly contradicting, disrupting or manipulating the flow of discussion; stifling others' ideas; verbally attacking or giving the "silent treatment;" denying that problems exist; etc.

Poor performance and inappropriate behavior call for the board's leadership to swiftly intervene, identify the nature and cause of this behavior, and, if necessary, remove the member from the board. Of course, if the board leader is the one behaving badly, or has an alliance to the troubled board member, then this can make for an especially difficult situation for the rest of the board.

Disagreement around program or geographic areas

Board members may have personal, religious or political differences, or the younger generation may have quite different interests than the elder generation. In addition, some board members may live in different cities or states, and have little to no connection with the geographic area where the foundation funds. This can cause these board members to lose interest or push for other funding priorities.

When not taken personally, however, individual differences among the board can be positive and important, as they allow other family members to learn new perspectives and gain respect for beliefs outside their own.

Ten Tools for **Handling Conflict**

Luckily, there are ways that your family can address and manage these conflicts — and, in turn, ensure that your foundation is operating effectively.

Here are 10 tools that your family can use to handle conflict, both preventatively and after-the-fact.

1. Create policies and guidelines for the foundation before they become issues

One of the best ways to head off conflict is to have a clear set of policies that are put in place before a conflict arises. As you create your foundation, consider policies on board qualifications; eligibility for board membership (include language that addresses spouses, in-laws, and step-children, as well as what happens when there's a divorce); succession and leadership transitions; terms and rotation policies; reimbursement; decision-making; and more. Be sure to apply these policies equally, and not in reaction to one individual.

In addition, be sure the foundation has a clear mission and grant guidelines. This can help prevent confusion and personal agendas when it comes to grantmaking.

2. Set clear expectations

It sure helps create clarity when board members actually know what it is that's expected of them. As a committee, create a clear statement of board member expectations, and share it with all members—new and seasoned alike! In addition, orient new board members about the foundation's history and values, and about their legal, financial, and grantmaking roles and responsibilities.

3. Create a safe space in meetings

Try to create an atmosphere of mutual respect, listening, and empathy in the boardroom and beyond. Establishing meeting rules can help (but be sure those rules don't contribute to avoidance!). Rules can be about openness, about airing issues, about hearing everyone's voice equally. People can take turns enforcing the meeting rules in a friendly but firm way. Offer a "parking lot" for issues that seem too overwhelming or heated in the moment. The board can always come back to these issues once people have a chance to calm down.

4. Make time for conflict

Schedule time on a regular ongoing basis for people to air their differences and problems. This can be part of a more formal "conflict management process," or can be an informal "okay, let's get our issues on the table" talk. By creating a set "time" to bring up difficult issues, you can give people an opening to talk about conflict in a responsible way.

5. Name the issues

Don't let uninvited elephants stay in the room—call them out. This isn't always easy, and in some ways, can escalate the conflict before it assuages it. However, naming conflict is often the first step to managing it. Naming can happen in the moment of conflict, in retrospect, or to acknowledge ongoing conflicts that keep rearing their head.

6. Keep track of conflicts and why they occur

During meetings, track and see what issues rise to the top, and decide which need to be addressed now—and which can be addressed later. Notice if there are certain times of year (e.g., grant cycles, holidays, stressful times) when conflict seems to be more present than others. The more you can understand these conditions, the better you might be able to predict conflicts that are likely to arise.

7. Seek out best practices from other foundations

By looking at how other foundations manage conflict, your organization can approach conflict as an opportunity for learning and professional development, rather than something to take personally.

8. Rotate board leadership

Some believe that board leadership (or membership, for that matter) shouldn't be a lifetime appointment. If you have not already done so, consider instituting terms and term limits to give other qualified family members the chance to lead or be on the board. At a minimum, be sure that you have identified qualifications for the chair role and make sure you have a chair that can meet them.

9. Consider including nonfamily board members or "wise counsel"

Family members behave when there are others in the room. If you include non-family board members or others whom the family respects for their wisdom and perspective, family members may act kinder and more professional in the foundation setting.

10. Break bread together

Make the foundation more than about grants and money and power. Socialize! Remind people that they are part of a family. Share a meal, or dedicate the beginning or end of meetings with time to catch up and nurture relationships. Getting to know each other outside the boardroom can lead to more productive and collaborative environment inside the boardroom.

When do you need **outside help**?

Sometimes families can navigate their way through conflict, and other times they can't. If your family foundation is struggling or stuck, it's time to call on outside support. You can either engage a professional family advisor or call on a trusted, unbiased colleague. A neutral party will hear from everyone, and reflect back the things family members cannot say to one another. They can help you identify trouble spots, and suggest options for working through them. ■

For suggestions of qualified consultants and sample consultant agreements, contact the National Center for Family Philanthropy.

MANAGING YOUR FAMILY FOUNDATION

Operating in ways that match your mission

BY ELAINE GAST FAWCETT

A family foundation provides an unparalleled opportunity to share your values, skills, and creativity—all while making positive change to causes close to your heart.

Private foundations require the same day-to-day attention as any small business. That means attending to tasks such as bookkeeping, answering calls, cutting checks, and filing government forms. It also means managing accounts and investments, tracking expenses, meeting mandatory payout requirements, and working with advisors. Finally, it requires working with the board and, if you choose to do so, hiring and overseeing staff.

Luckily, there are many options for running a family foundation, whether that means outsourcing management, hiring a family or non-family staff member, or doing some or even all of it yourself. It all comes down to what you value, and how much time, interest, and effort you, your board, and your family want to put in.

Remember: Every management decision you make reflects your mission and values.

If you are just forming a foundation, first consider if and why you want family members involved — and how active you want them to be. This may drive many of your management decisions. For example, if your foundation's values are to strengthen family ties, you will likely house and staff the foundation in a way that brings the family together.

Regardless of whether you are a brand new foundation or have been at it for a while, also consider the impact your management choices will have on your grant partners and community. Family foundations exist to serve the community, and the way you structure your operations can reflect that.

The ideal is to find a management approach that serves your mission, works for the board, works for your grant partners, and gives your family joy, year after year.

This chapter will help you better understand the different aspects of managing a foundation, and explore your options to get the job done. Of course, you want to run the foundation efficiently to make sure the bulk of your resources go toward fulfilling the mission. Yet, keep in mind: the dollars you spend on management are your investment in an effective foundation.

Where Can You Learn **About Your Community?**

If you are looking to learn about your community, good news! There are plenty of resources available to you. Here are a few to get started:

- Your local **regional association of grantmakers**.
  Find yours at givingforum.org.
- Your local **community foundation**.
  Find yours at cof.org/community-foundation-locator.
- Your local **association of nonprofits**.
  Find yours at councilofnonprofits.org.
- Connect with other philanthropists through **donor circles** and **funder collaboratives**. To find giving circles in your area, check with your local community foundation or regional association of grantmakers. To learn more about giving circles, visit givingforum.org or amplifiergiving.org.

The Work — What Needs to Get Done?

Before you set up the foundation office or hire any staff or eager board volunteers, first consider: What work needs to get done? It's important to ask this question both as you start out, and day-to-day as you manage the foundation. You should also consider reviewing your needs on an annual or periodic basis.

If you're brand new to foundations, you may still be learning what's involved. Here's an overview of the different categories of responsibilities and tasks to tend to.

Keep in mind: Some foundations divvy these tasks up among volunteer board members and advisors. Others hire staff for some of the activities, and manage the others through board committees. There is no right or wrong way to do it.

Administrative Tasks

Every office (including a home office) requires basic administrative tasks to keep it going. This may include setting up and maintaining the office; ordering office supplies and equipment; working with vendors; setting up a system to retain records; answering mail, email and phone calls; responding to inquiries; and electronic and/or hard copy filing.

Legal and Financial Requirements

Hire a qualified accountant to prepare your annual tax return and an attorney to ensure you're meeting all your legal requirements. Accountants prepare financial statements and the annual return (Form 990-PF), and they sometimes assist with investments and bookkeeping. Lawyers usually help establish the foundation; review annual returns; and offer ongoing advice on grantmaking, board issues, and other topics.

Even with these professionals offering support, it's important for you to know the basic legal rules that regulate the forming and activities of private foundations. (See the chapter on legal issues for more on legal and financial rules.)

Managing the Board

Managing a board (any board) takes diligence and finesse. It involves taking the lead on administrative tasks related to board meetings and governance issues, as well as implementing the policies and strategy set by the board. Someone (or more than one person) must schedule meetings, set the agenda, and prepare/distribute board dockets and reading materials in advance. Once the meeting is over, he or she will need to distribute the minutes, follow up on action items, and communicate to the board in between meetings.

The board may also need support around governance issues, such as board recruitment and orientation; creating board job descriptions; planning and/or facilitating board retreats; compensation and expense reimbursement; assessing board and foundation performance; hiring and working with consultants; maintaining directors' and officers' liability insurance; and succession planning. (See Good Governance: The Family Imperative.)

Managing Staff (if applicable)

In many foundations, it's the board's job to oversee staff. If your foundation has more than one staff member, this responsibility may fall to an executive director or CEO. Staffing needs may include recruitment; working with search firms; coordinating and conducting interviews; setting salary and benefits; managing payroll; and conducting performance reviews.

Managing Finances

In addition to following rules governing your grantmaking, you will also have a number of basic bookkeeping and accounting needs. These might include: managing a foundation checking account, writing checks, setting and balancing a budget, managing cash flow, creating financial reports for the board, and more. A point person will also need to work with investment managers and consultants to oversee investments.

Managing Grants

Grantmaking is your foundation's core and it requires considerable management. The board sets grant guidelines, reviews proposals and makes decisions (if only it were that simple!). The grants manager/administrator or grants committee solicits and initially screens grant proposals; identifies and conducts due diligence/compliance on potential grant partners; schedules site visits (if applicable); communicates with grant seekers; sends award letters and grant agreements; monitors grant reports and expenditures; and if your foundation chooses to do them, oversees grant evaluations. (See Effective Grantmaking, and visit *Grants Managers Network* — *gmnetwork.org* — for support and resources.)

Communicating Internally and Externally

Some foundations use communications tools to stay in touch with the board and family in between meetings. This might include a special web portal for board members, and/or an e-newsletter or blog post that goes out to extended family members. To communicate with grantseekers and the public, your foundation will need to maintain an updated presence via a website and (if you choose) social media, and provide clear written grant guidelines. It helps to designate someone to be the spokesperson for the media. You might also consider providing other materials, such as a foundation history, a foundation fact sheet or brochure, and an annual report. (See the chapter on communications, and visit *The Communications Network* — *www.comnet.org* — for support and resources.)

Administrative Expenses: **How Much** Should You Spend?

You want to run your foundation as efficiently as possible—that's a given. Yet the only legal or common guideline on how much your foundation can or should spend is that expenses must be "reasonable and necessary." So how do you figure out what's reasonable and necessary?

There's no one answer that fits all foundations, and yours will depend on many factors, including:

- the purpose of your foundation;
- whether your grantmaking is local, regional, national or international;
- activities other than grantmaking;
- the size and number of grants and grant partners;
- the number of staff and consultants.

Many foundations start off wanting to keep their expenses lean in order to save their funds for grantmaking. This is understandable. However, you may find in order to build infrastructure and effective grantmaking programs, you need to pay for it.

"Many people I've met with who are family members starting new foundations say they want to be lean," says Doug Bitonti Stewart, executive director of the Max M. & Marjorie S. Fisher Foundation. "During the conversation, they talk about how much they want to be involved, about developing a point of view and presence in a particular field of work—and it begins to dawn on them that doing it the way they want might cost more than keeping expenses to an absolute minimum will allow."

It takes time and money to find the right office space, hire and retain staff, join local and national associations, convene community meetings, research your funding areas, visit grant partners, and become leaders in local causes. Think not in terms of how much should you spend, but in terms of what you want to accomplish—either with your grant partners, or within the philanthropic field.

Not sure where to start? Visit with other family foundations of a similar asset size to get a sense of their style, expense structure, and operations.

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Administrative Expenses: How Much Should You Set Aside?

Administrative expenses typically include salaries and benefits, legal and professional fees, office space and overhead, travel, printing, dues and memberships, publications, professional development fees, and programmatic expenses.

Be Sure to Back Up

Retaining records? You need to include a regular backup system in case of fire or other disaster. For paper files, this may mean storing additional copies of your permanent records off site or electronically. For electronic documents, make sure you regularly create backups.

Which Records Do You **Need to Keep?**

Whether your foundation has its own office or uses a home office, you will need a system for files and recordkeeping. Many foundations delegate their recordkeeping duties to accountants, custodians, or consultants. Even so, it's important—and legally required—to make sure your records stay in good order. Here's a quick guide for what to keep, and how long.

Keep these records forever:

- Original organization documents (articles of incorporation, trust instrument, bylaws, etc., plus any amendments to these documents);
- Form 1023, the application for federal tax-exempt status;
- Form SS-4, the application for taxpayer identification number;
- Internal Revenue Service favorable determination letter, which is the IRS ruling that 501(c)(3) status is granted;
- All Forms 990-PF, the foundation's annual tax return; keep tax worksheets for up to 10 years;
- Any official correspondence with the IRS;
- Foundation's annual reports;
- Any other tax exemption certificates—for example, from state or local authorities;
- Correspondence with attorneys, accountants, and/or custodians of the foundation's assets;
- Board records, such as meeting minutes and committee actions.

Keep these records for 5-7 years (check your state law for exact requirements):

- Grant files—keep for a minimum of six years in case of an audit (only three years for declined grant requests);
- Record of contributions—keep until tax reporting is complete and the audit period has ended;
- Personnel records—check with your attorney or accountant to determine the required length of time to retain these records;
- Financial records—keep investment reports until assets are sold and for the duration of the audit period; keep foundation transaction records for the tax reporting and audit period that follows;
- Contracts—in general, keep for three years after the contract expires.

The People — Who Will Do the Work?

There's work to be done in running a foundation. Who is going to do it? Foundation "staff" might be the founding donor, a volunteer family member or members, a professional executive, a self-selected team of trusted advisors, an outside management firm, or any/all of the above. There's no "one way" to do it, and in fact, many foundations experiment with different management models as they evolve.

In addition to all the tasks of running an office, family foundations have one more job that most other organizations do not—determining how best to involve and work with other members of the family. For a foundation just starting out, or those re-evaluating what will work best for them, the questions that most often drive management decisions include:

- How much or how little do family/board members want to be involved in the day-to-day responsibilities? What is their time availability?
- What skills, expertise and/or experience can family/board members contribute?
- Where do board members live, and how well do they know the area/region/community that the foundation supports?
- How comfortable is the board in letting others take the lead?
- How visible does the foundation want to be?
- How much will it cost?

Once you answer these questions, you should consider which structure you want to follow. Below are some of the common models used for staffing family foundations. Many families use variations on these models or a combination of them. Each of these can be effective, depending on what is important to your board and family. They include:

Do-It-Yourself: Volunteer Board Managed

Many families choose to operate their foundations, especially early on, with volunteer staff from the board or family. Sometimes one person will take on the day-to-day work by default, or the board will divvy up the responsibilities based on interest and areas of expertise. This includes all the related administrative, financial, governance and grants management responsibilities. For example, one board member might keep records and file the annual 990-PF tax form, while another manages the money, and yet another answers inquiries and vets grant proposals. Because everyone has a task, the board functions as a team.

The board-managed approach can be a great way to involve board members and give them ownership in the foundation's work. It's also the most cost-effective, considering there may be no salaries or fees (although some foundations compensate and reimburse board members for providing professional services to the foundation—see Good Governance for more about board compensation policies).

However, managing a foundation with volunteer board members can be time-consuming and, in some cases, feel like a burden. Board members may have varying levels of experience, which can make for uneven results. It can also create tension if members don't follow through or complete tasks on time.

Rather than staff by default, it's far better to think about it systematically. Start by discussing what qualities, skills and experience the foundation needs, and then see who, if anyone, on the board fits each role. If you go with the board-managed route, be sure that the board defines roles, expectations, and accountability measures up front.

Strengths of this model include:

- Board members take ownership and are fully invested in the foundation
- Board functions as a team
- Most cost-effective

Possible problems:

- Can cause tension if someone isn't doing the job in a timely or professional way
- Board members may burn out
- Foundation may miss out on access to outside expertise
- Community may view the foundation as haphazard or unreliable

COLLEAGUE STORY:

The Durfee Foundation surveys its board members once a year to assess the various ways they do (or do not) want to be involved in the foundation.

"We ask trustees to tell us how they want to participate, be it attending site visits, serving on a selection panel, meeting with investment advisors, etc. We've found it a useful tool," says Durfee Foundation President Carrie Avery.

If you survey your board members, ask them what skills they can offer and the areas in which they might like to learn. This can help the board overall determine who has the time, interest and expertise to take on specific staffing roles and tasks.

Calling All Consultants: Board Selects a Team of Advisors

A useful model for some families is to hire a team of trusted advisors to handle various responsibilities, particularly if these advisors already handle your other business (e.g., an attorney, a financial advisor, an accountant, a bookkeeper, support staff from a corporate or family office, etc.). However, it takes time and effort to coordinate outside efforts, and the advisors may or may not have foundation-specific expertise. You may still need one or more individuals who oversee all operations.

In this case, the foundation might also hire an individual foundation consultant to provide day-to-day management support. Consultants are generally paid an hourly, daily, or per-project rate. Others charge a percentage based on a foundation's total grant portfolio. In some cases, the consultant acts as executive director, assisting the board in developing grant focus areas and requests for proposals.

Strengths of this model include:

- Eliminates costs of ongoing staff and office space
- Provides access to specific expertise
- Keeps staffing costs low, since consultants usually work part-time or per-project

Possible problems:

- Foundation may be less visible without a specific office and staff member
- You aren't the consultant's only gig; therefore, response time to the board or grant partners may be delayed
- Someone from the board will need to manage hiring, contracting, and overseeing the consultant's work, which can take time

Where to Find Consultants

Looking for a consultant or advisor who works with foundations? Check out these resources:

- **National Network Consultants to Grantmakers**—nncg.org—maintains a directory of fully vetted consultants, searchable by specialization and regions served
- **NCFP**—www.ncfp.org—provides support and makes appropriate referrals within its network for people who are interested in selecting an advisor or consultant
- **Directory of Professional Advisors**—exponent-philanthropy.org—offers a national listing of vetted professionals who serve foundations and philanthropists

Outsource It:
Hire a Full-Service Support Firm

If you are interested in outsourcing part or all of the foundation's day-to-day business, you have plenty of options—each with varying degrees of control, visibility, and cost.

Some community foundations offer a fee-for-service program for private and family foundations—providing back-office support and/or grant-making assistance. Community foundations can offer important insight on current community needs, local organizations and how to give effectively. At a community foundation, you also have the option to establish or contribute to a donor-advised fund. Some religious organizations, such as Jewish Federations, will also offer foundation management services for a fee.

Many large banks provide foundation administration and investment management services, as long as the foundation's assets are kept at that institution. The same can be said for large financial services companies or regional law and accounting firms.

A full-service foundation management firm provides services specifically for private foundations, and works with a number of clients at any given time. Typically, full-service firms charge a fee based on a percentage of overall assets. Although this may be more expensive than other options, you can find everything you need to manage your foundation in one place: administration, compliance monitoring, tax preparation/filing, and philanthropic advising. Depending on a family foundation's needs, these professional managers may be visible and proactive on behalf of their clients, or they might provide only minimal administrative oversight.

Strengths of this model include:

- Costs of ongoing staff and office space isn't necessary
- Access to expertise, technology, networking with other funders

Possible problems:

- Foundation may be less visible without a specific office and staff member
- Administrative fees can be high

COLLEAGUE STORY:

The Educational Foundation of America board knew it needed back-office support, so it formed a committee to research, solicit proposals, and interview foundation management firms.

"We found a great partner that provides online database management, board docket preparation, check-writing services, expense monitoring, human resources support and more," says President Bobbi Hapgood, a board and family member.

"This has allowed us to separate from these roles—so that staff can focus more on program, and the board can focus more on due diligence. It's one more check and balance, and for all the resources we get, I find it less expensive than having staff."

Staff Up: Board Hires Paid Family or Nonfamily Staff

At some point in the life cycle of many foundations, the board will hire a paid staff member (or members) to oversee the daily needs of the foundation. Many foundations start off with a family member or "family insider" (a trusted family friend) staffing it in the early days, and then evolve to non-family staff structure later on. If this is how your foundation operates, you're in good company. Even some of the largest foundations in the country started this way (think of the Gates Foundation, for example, which was run for years by William Gates Sr. See the conversation with Mr. Gates on Page 62.).

Your foundation might hire its first staff member, be it family or nonfamily, to function as an administrator, an executive director or CEO, a foundation manager or grants manager or program officer. The titles vary, as do the roles and responsibilities.

Some of the most common roles and titles include:

An administrator focuses mainly on administrative issues. This person might handle correspondence and inquiries, log grant requests, review and initially vet proposals for eligibility, arrange meetings, go on site visits and prepare materials for the board. Some organizations use different titles, such as foundation manager or grants manager, for this role. The position might be full-time or part-time, and perhaps shared with another family entity (a family business or family office).

A program officer provides specific expertise about one or more of the foundation's funding areas, and manages the grantmaking for that program.

An executive director oversees other staff (if applicable), manages the office, works with the chair to develop the board agenda and strategy, facilitates board meetings, and implements the board's directives. This position might be full-time or part-time, voting or non-voting.

In lieu of an executive director, some foundations hire **a CEO**, who acts as a leader to both board and staff and, in some cases, helps build the board. The CEO sets goals and shapes programs for the foundation, recommending projects and policies to the board. This position is typically full time, and may be voting or non-voting.

How do you know what you need?

If you're not sure what position to hire for, think about what the foundation needs and what the family needs. "Some foundations need a CEO right out of the box—a person who leads and builds the board, bringing specific talents, skills and impact area expertise they need to achieve their mission," says Doug Bitonti Stewart, executive director of the Max M. & Marjorie S. Fisher Foundation. "Others need an executive director who leads with a servant-leader orientation—facilitating the board's wishes, managing the family dynamics, creating consensus out of chaos, as they saying goes."

Katherine Lorenz, president of the Cynthia and George Mitchell Foundation, offers this advice: "A lot of families say they want one thing, but they actually need something else. Do you really want an outside expert leading the foundation, knowing that they might come in with their own ideas on what's best? Or does the family just want advice and then you do it yourselves? The more a board asks themselves these questions upfront, the more likely they will find staff they actually need."

Strengths of this model include:

- Board members are freed from routine administrative tasks
- Trustees can maintain hands-on direction of the foundation, or look to the professional staff person to lead
- A professional staff person has time to follow opportunities and network in the community
- A nonfamily staff person may act as a calming influence in the face of family dynamics

Possible problems:

- Staff need a clear supervisor and will have to adjust to different board chairs
- Paid staffing is the most costly model
- It may be challenging at first for a family to build trust with nonfamily staff

Do you want an outside expert leading foundation, or do you just want some advice and then you do it yourselves?

In Their Words

Serving as **Family Staff**

My sister and I served on our family foundation board and acted as joint co-directors for years. At first, we did it as volunteers, and soon realized how much time we were putting into it. My father suggested we take a token salary, and we said no: either give us a real salary, or we'll remain as volunteers. We then began to draw a small professional salary and medical benefits.

It was never a money-making career for us. We did it because we believe in the work of the foundation, and we wanted to do that work. However, being a family staff member was one of the hardest things I've ever done. We're all equal participants, and yet we approach things differently. We're motivated by not hurting each other's feelings, and inevitably, there is conflict.

Looking back now, had we hired nonfamily staff early on, the foundation itself might have been stronger. We would be further down the road as far as implementing best practices. However, the family would have lost something. We wouldn't be so invested in it. Serving as family staff is a hard opportunity, but a valuable one.

— Nancy Brain, president Frances Hollis Brain Foundation

Serving as **Non-Family Staff**

When I started as a nonfamily program officer at a family foundation, the executive director there told me "This is more about family than you probably realize." I heard what he said but didn't truly understand it.

One of the big lessons I've had to learn as a nonfamily staff person is patience and deep listening. When implementing something new, it has to feel right for the family. I may think it can get it done in three months, but it may take three years if it's not the right timing for the family. I've had to recalibrate my timeline and slow down in a way that works for them. It's important to also have patience with family dynamics—letting it be theirs, not mine. Now that I understand this better, it's not frustrating and one of my favorite unique elements to family foundations.

— Annie Hernandez, executive director of the Frieda C. Fox Family Foundation

Sharing Staff

Many small family foundations share staff as a way to maximize efficiency and save costs. If this is something that interests your board, there are many ways you could approach this.

The most obvious choice would be to share staff with the family business or family office, if that is available. Many foundations start off this way—sharing a bookkeeper or executive assistant, for example—and then may decide to hire their own distinct staff as the foundation evolves.

Another is to outsource grantmaking and/or back-office duties to a community foundation, nonprofit, or for-profit foundation management firm. These organizations can provide services such as identifying and screening grant partners, working with families to clarify their goals and interests, and managing the day-to-day administrative details.

Philanthropic collaborative groups (e.g., organizations such as Tides or the National Philanthropic Trust) can offer families prompt, affordable access to expertise and a network of like-minded givers. Families that opt for this type of shared arrangement also have the benefit of access to high-level consulting staff and expert administrative staff on an as-needed basis. To find out more about philanthropic collaborative groups, contact NCFP.

If there is no philanthropic collaborative group in your area, look for funders or nonprofits nearby who may be interested in sharing staff and/or space. Or contact an affinity group to find other funders who share a similar funding focus.

Family Staff: **Words to the Wise**

When a family member has the skills, interest, and time available to staff the foundation (either as a volunteer or paid staff), it can be a meaningful experience for that individual as well as the board. Often, a family member is the best choice to represent the foundation in the community, since he or she will know its history, culture, and purpose better than anyone.

Plus, that person will most likely already have close relationships with those on the board, in theory shortening the learning curve.

However, staffing a foundation with your family members is not for the faint of heart. Some of the challenges can include:

- Reporting to a member of your own family
- Staying professional and setting boundaries with family members
- Hearing criticism from family members
- Keeping an unbiased, objective point of view
- Refraining from unproductive family dynamics

Those who have staffed their family foundation offer this advice:

- Stay neutral
- Err on the side over-communicating and staying overly accountable
- Request honest and regular performance reviews
- Seek consensus from the family when possible
- Hire an outside facilitator when needed for board meetings and retreats
- Have a graceful exit strategy in place for if/when you want to leave the role, or the board wants to rotate in someone new

Staffing the Foundation: **Decision Tree**

To figure out which staffing model is best for your foundation, ask these questions:

❶ ***What work do we need to cover currently? (make a list of projects, tasks, responsibilities)***

❷ ***What's the time commitment this work entails? (daily, per month, per grant cycle)***
AND
What skills and expertise does this work require?

❸ ***How do we foresee our staffing choices affecting our grant partners and the community?***

❹ ***Is there someone (or more than one person) in the family who has the skills, interest and time to manage these tasks? Does this person live in or near the geographic funding area, or is he/she familiar with this region?***

➤ **YES.** We have the perfect fit in our family.

- *Will this family member be volunteer staff or paid staff?*
  - *If paid, what is the appropriate salary?*
    - *Check self-dealing rules for paying family members.*
    - *See the latest Grantmaker Salary and Benefits Report from the Council on Foundations or Exponent Philanthropy to compare staff salaries.*
  - *What benefits will the foundation pay?*
  - *Will this family staff member be a voting member of the board?*
  - *What will this person's title be?*
  - *What will the job description include? What will it not include?*
  - *Who will this family member report to? How will the board measure staff performance?*
  - *What is the expectation around duration of volunteer role/ employment, and in what ways can the family member exit gracefully from the role if needed?*
  - *What can the board and family put into place up front to ensure good communication and manage any conflicts/ unproductive family dynamics that arise?*

➤ **NO,** there is no one in our family who has the skills, time and interest. Continue to next question.

❺ ***If looking outside the family, what's important to us when considering how we will staff the foundation?***

➤ *Is it important to have someone we already know staff the foundation (a trusted family friend or advisor)? If so, how will we balance that trust with getting the skills we need?*

➤ *How visible do we want to be in our community?*

➤ *How much ownership and involvement do we want to maintain?*

➤ *What's our budget for staffing?*

❻ ***If looking for non-family paid staff, what position will the foundation hire for?***

- A lead staff member who provides direction, recommends programs and policies, helps build the board and supervises other employees. ***Consider hiring a CEO.***
- A lead staff member who is perhaps more family focused, and who facilitates the board in leading themselves as a group, and supervises any other employees (if applicable). ***Consider hiring an executive director.***
- Staff member who handles administrative or grantmaking tasks only—acting as more of a coordinator, versus a leader. ***Consider hiring an administrator or foundation manager.***
- Staff member who specializes in one or more of the foundation's funding areas. ***Consider hiring a program officer or grants manager.***

❼ ***What will we offer a non-family staff member as an employment package?***

- *What will this person's title be?*
- *What will the job description include? What will it not include?*
- *What is the appropriate salary for staff in this position?*
  - *See the latest Grantmaker Salary and Benefits Report from the Council on Foundations or Exponent Philanthropy to compare staff salaries.*
- *What benefits will the foundation pay?*
- *Will the staff member be a voting member of the board?*
- *Who will this staff member report to? How will the board set staff goals and measure staff performance?*
- *Where will the staff member work?*

Tools for **Successful Staffing**

Whether your board is considering hiring its first executive director, CEO, or administrator, or if you are looking to expand your staff with a new program officer, grants manager or assistant, this section gives you some ideas to start thinking about the hiring process.

➤ For more a comprehensive guidebook, see *Help Wanted: The Complete Guide to Hiring a Family Foundation CEO*, a project of the National Center for Family Philanthropy's CEO Initiative.

STEP ONE:

Create a **Job Description**

Just as the board created grant guidelines describing what the foundation wants to fund, it's necessary to discuss and put into writing the desired qualities, experience, and expectations of the person you want to hire. You might do this as a board, and then form a smaller "search committee" that will head up the hiring process.

Even if only a few bullet points describing the staff role, a job description can save a lot of heartache and headaches later on. Job descriptions help the board set expectations, and ultimately give staff more ownership over their work.

Once you have drafted and approved the position description, you can then create a job announcement that will alert potential candidates about your opening.

Thoughtful job announcements usually include:

- Position title
- Brief description of the foundation
- Position's general and specific duties
- Professional experience required (education, background, years in the field, etc.)
- Desired personal qualities
- Salary range, or list that it is "commensurate with experience"
- Application requirements (cover letter, resume or CV, references, etc.)
- Contact information
- Closing date

NOTE: If you are using a search firm, it can help you craft the job announcement.

STEP TWO:

Recruit **Candidates**

Once you have your job announcement, it's time to get the word out.

- Post the job description on your website, with a link to it on social media venues as available (LinkedIn, Facebook, Twitter, for example).
- Upload the announcement to philanthropy and nonprofit job boards (e.g., Council on Foundations' Career Center, Forum of Regional Associations, and NCFP as well as your local regional association, *Philanthropy News Digest*, *The Chronicle of Philanthropy*, Idealist, and applicable affinity groups).
- Advertise at university and professional programs on philanthropy.
- Spread the word among your networks, colleague foundations and grant partners.
- Use an executive search firm. (See sidebar *Should You Hire a Search Firm?*)

COLLEAGUE STORY:

The Frieda C. Fox Family Foundation recently hired a new director of youth philanthropy. Rather than use a search firm, the foundation leveraged its network to find people they thought would be good candidates."We called on our foundation contacts, spread the word at colleague events, and announced the job posting to different partners across the country," says Executive Director Annie Hernandez. The foundation also posted the job announcement on various philanthropy email lists.

A subcommittee of the board managed the hiring process. "After an initial narrowing of candidates, we ended up with one finalist," Hernandez says. "She interviewed with our full board and also our junior board and youth advisory committee. Then we had her interview with some of our partners. It was an extensive process, but by the time we were done, everyone gave the thumbs up." Because the candidate lived in a different part of the country, all interviews were held on video conferencing (Google Hangout and GoToMeeting). "None of us met her in person during the job interview; we hired her through video conferencing."

Should You **Hire a Search Firm?**

To widen their search for candidates, some foundations engage an executive search firm to help them find the right fit. You might want to use a search firm if:

- The job market is tight.
- The board doesn't have time to handle all the tasks involved in the hiring process.
- The board wants to tap into a national pool of candidates.
- The foundation wants to keep the search—and the foundation's name—confidential.
- The board isn't experienced at vetting resumes and interviewing candidates.
- The board wants expert advice throughout the process.

Executive search firms usually charge a substantial fee; however the work they do in helping you get clear on what you are looking for and identifying candidates can save thousands of dollars in the long run. When speaking with various search firms, ask them:

- Who will staff the firm's search?
- How does the firm conduct its search?
- What are the fees and expenses, and timing of payments?
- What is the policy if the new hire doesn't work out?

To find a reputable search firm, check with your national and local grantmaker support organizations. Call the National Center for Family Philanthropy for a list of search firms that have experience working with family foundations. Ask colleagues what firms they have used and about their experiences with these firms. Visit the Association of Executive Search Consultants (aesc.org) for more leads and information.

STEP THREE:

Hire the **Right Person**

Foundations typically interview several candidates in the first round. This can be useful in comparing experience and personal styles, and also incredibly time consuming. Consider holding shorter initial interviews (20–30 minutes) by phone or video conferencing. This saves time and expense. Hold final interviews at the foundation office, if available, or a central location in the foundation's funding area.

Next comes the hard part: deciding who to hire. Final candidates may have different strengths and value that they offer the foundation, the community and the board. It's important for the board to think long term about a candidate's skills, style and chemistry with the board. "Our board was about to hire its first executive director, and our search firm said to us: 'You'll be living with this person. Are you still in love?'" says a family foundation trustee. "It changed the course of whom we hired."

When the board is ready to make a job offer, include the following in writing:

- Title and role
- Start date
- Job description/responsibilities
- Salary and benefits
- Performance standards
- Length of probation period
- Nature and timing of performance reviews
- Termination policies, including policies on substance abuse, professional conduct, sexual harassment, dispute resolution and conflicts of interest.

Staffing Issues to Consider

Compensation

Staff compensation is usually based on an individual's prior experience and the level of responsibility he or she will carry in the foundation. In order to determine a salary that compares with market rates, it helps to research similarly sized foundations.

➤ See the latest *Grantmaker Salary and Benefits Report* published by the Council on Foundations or Exponent Philanthropy to compare staff and benefits packages.

Foundations often wonder what the rules are regarding paying a salary or reimbursement fees to a family staff member. This is legal as long as the work performed is necessary for the operations of the foundation, and the amount of compensation is reasonable.

➤ Compensating board members for their service is a separate issue than paying a staff member's salary—although the lines blur if a board member is performing staff functions and wants to be paid. To learn the legal rules and best practices, see chapter on legal issues.

Performance Reviews

Even if it doesn't feel natural in a family foundation setting, it's important to perform some type of regular performance review of staff members. The board (or person in charge of supervising staff) should develop and communicate clear job responsibilities and performance measures, regardless of whether the staff member is a family member.

In fact, it's even more important to set written expectations and performance measures and give feedback if it's family staff. The clearer you are upfront, the more likely you can avoid potential conflicts down the road.

Performance reviews aren't judgment day, and shouldn't been seen as such. They are an opportunity for learning on both sides—giving both board and staff a time to reflect on what the foundation has accomplished, and what might be improved. They are also a time for staff to receive feedback, set goals and discuss salary increases.

There are a number of ways to conduct performance reviews, ranging from an informal lunch to a more formal written assessment. In many cases, staff members assess themselves first, and then compare their notes with those made by their supervisor and/or the board.

➤ For more on this, see Performance Review: The Complete Guide to *Evaluating the Family Foundation CEO*, a project of the National Center for Family Philanthropy's CEO Initiative.

Connecting with Colleagues

The life of a sole-staff or executive of a foundation can be a lonely one. If you work out of your home or an office of one, and it can take real effort to connect with colleagues and learn. Professional development gives you new skills and knowledge, and also gives you a chance to meet and learn from others.

Once you start looking, you will find that opportunities for learning and connecting are everywhere. Here are some ideas from your colleagues on how they approach professional developing and networking. These can be helpful to staff members and board members.

Keep in mind: you don't need to do all of these at once. Pace yourself for the best results.

- **Connect with grantmaker support organizations**, such as the National Center for Family Philanthropy (ncfp.org) or other membership-based national organizations. Locally, connect with your regional association of grantmakers (givingforum.org) to meet or collaborate with funders in your city or town.
- **Attend conferences and workshops**. National philanthropy conferences (such as the National Forum on Family Philanthropy) provide quality sessions and networking opportunities, and regional conferences and workshops connect you with your local colleagues and community. You can also find ongoing grantmaker education through Learn Philanthropy (learnphilanthropy.net) or the Johnson Center at Grand Valley State University (johnsoncenter.org).
- **Attend webinars and online learning**. Grantmaker support organizations and others offer topic-based conference calls, webinars, podcasts, and other opportunities to learn from the convenience of your desk.
- **Read field publications**. Make time to read online and print publications, blogs, colleague and grant partner newsletters, case studies, guides, and Twitter feeds you find useful.
- **Seek or create a learning community**. Organize or attend brown-bag lunches around a particular topic, or convene your colleagues or grant partners in other ways. Connect with peer groups through your local regional association of grantmakers.
- **Start colleague conversations**. Meeting with one or two colleagues in the same or similar field, or in a similar position, can create a space for learning, socializing, and support.
- **Ask for help when you need it**. Reach out to a colleague or a grantmaker support organization that can answer your questions. In this generous field, help and mentorship is available if you ask for it.

The Place — Where the Work will Get Done

Once you decide what work needs to get done and who will do it, you must decide where it will happen.

Foundations have a lot of flexibility when it comes to where they do their work, and the choice may be an obvious one for you. If you're just starting out, perhaps a kitchen table or a home office is all you need. Perhaps your family already has a family office or corporate office in place, from which the foundation could rent space. Or you may decide the foundation needs its own free-standing office that is more visible in the community.

For many, the choice isn't so obvious at first. There are many things to consider, among them:

- How your office space can reflect your mission;
- Proximity of the office to staff, board members, family members;
- Proximity to your grant partners; desire for visibility versus privacy
- How many staff you need to accommodate (now and in the next three to five years);
- Whether you will hold meetings or convenings in your office
- Other features you may need (including storage areas, closets, a kitchen, security system, adequate parking, etc.);
- Options for sharing space with other funders, nonprofits, family entities or entrepreneurs; and
- Desired level of comfort and sophistication

When in doubt about what kind of office you need, a good place to start is to ask yourselves: *What message do we want our office space to send to our grant partners and community?*

For example, one foundation considered setting up its office in the suburbs of Detroit. This made good sense at first, considering the family and board members lived in the suburbs themselves. However, in thinking it through, they realized that this might send the wrong message to the foundation's grant partners, which were all located in the city of Detroit. Out of respect for its grant partners, the family decided to forego convenience and establish an office downtown—where grant partners could easily attend meetings and convenings at the foundation office.

Virtual or Home Office

We now live in a virtual world. It has become perfectly commonplace to telecommute, or even do away with the idea of having a physical location as "the office". A *virtual* office is one that is located away from the main or physical office environment—and in most cases, is located at a person's home.

It's no different for foundations. Many foundations operate out of a family member or staff person's home or other location.

For small foundations run by one staff or family member, a home office may be a practical choice. It is certainly the most economical, not to mention the best commute in town. Those who do have home offices say it's great for flexibility and for being close to family. They can choose their own hours, and spend more time with their partner, their kids, or the cat.

However, home offices aren't for everyone. At most, they will accommodate one or two staff. Depending on your home and family situation, you may not have the space—or the quiet—you need to make it work. And although overhead may be low, home offices still require some start-up and ongoing costs.

"Make sure you're budgeting for supporting someone with a home office," says Annie Hernandez, executive director of the Frieda C. Fox Family Foundation. "Be ready to pay for phone, Internet and all the technology needs, shipping costs and more. It can be less expensive overall, but be prepared that there are still expenses."

Another challenge to home offices is that it can be tough to separate work from home life. You may have grant reports to read or emails to write, and nothing says distraction like a dirty pile of laundry or a dinner that needs to be prepped. Keep in mind: You also don't have a colleague in the next office to keep you accountable or brainstorm ideas. It requires more effort to connect with peers, or even meet a friend for coffee.

If you do decide to work from home, make sure you have adequate storage space for files and office supplies. Seriously consider keeping the foundation records at a separate fire-safe storage facility. Although not as convenient as having them in your basement or back bedroom, it's important to safeguard your important documents.

Know the Self-Dealing Rules

A foundation cannot generally pay rent for space in a home or family office owned by a family member or other disqualified person.

This is considered self-dealing, even if the rent is considerably below market rates. However, if the foundation leases or shares space from a disqualified person and the rent is zero, there is no self-dealing.

Always check with your attorney before making any arrangements or signing leases. (See the legal chapter for more on self-dealing rules.)

Family Office or **Family Business Office**

If your family has a family office or is considering starting one, running the foundation from this office may offer the most viable, cost-effective model. Many family offices provide staffing for administrative, financial, recordkeeping and investments for the family's foundation, which frees foundation trustees and staff (if applicable) to focus on grantmaking.

The Max M. and Marjorie S. Fisher Foundation is located next to the family office and shares some back-office support. The family doesn't own the building; it leases from a separate property owner, which removes the potential for self-dealing. According to executive director Doug Bitoni Stewart, the foundation shares a wall with the family office, but has a separate door.

"The family office treats the foundation as a highly-valued client, just as they do family members. They realize the family utilizes the family office by choice, and they treat us the same," says Stewart. "We think of the family office as critical partners. Through their expert work in investments and accounting, they help the family achieve their personal and financial goals. They also help us care for and operationalize the family's dreams for making social impact and repairing the world."

Other foundations start out co-located in the family or corporate office, and then break away as the foundation grows in assets and scope.

This was the case with the Self Family Foundation. Twenty years ago, when foundation president Frank Wideman III was hired, the foundation was located in the office of Greenwood Mills, the family company. "We had myself and part time help from a legal secretary when I first came on," says Wideman. "We grew in assets, and needed to build staff capacity. First, we moved out of the legal office and became a standalone office in the Greenwood Mills offices, and seven years later, we moved out of the building completely."

Similarly, the Cynthia and George Mitchell Foundation has received support form the family office since its inception. The family office provides all the back-office support such as accounting, investing and financial oversight. At the time, the foundation was in the process of undergoing an influx of assets after the death of founder George Mitchell, and plans to break away from the family office once the estate settles.

Shared (Co-located) Office Space

Many foundations share office space or staff with one or more organizations—other funders, nonprofits or other types of businesses or start-ups. Sharing can cut down on costs while fostering a collegial, collaborative environment.

You can go your own way when it comes to sharing—finding tenants to sublease from your foundation, or renting from another already established entity. You might look into multi-tenant office space for nonprofits listed on the Nonprofit Centers Network (nonprofitcenters.org).

Whether you are subletting office space, sharing a receptionist, or subleasing a photocopier, be sure you have a written agreement reviewed by your attorney. This will prevent possible misunderstanding between parties, and will keep you from violating any self-dealing rules.

Here are some tips for sharing an office:

- Consult your attorney before entering into sharing arrangements.
- Hold regular meetings to monitor general office issues and costs.
- Share reception responsibilities.
- Hold lunch meetings on similar funding interests.
- Share a meeting space, lunchroom, or other common area to create opportunities for sharing ideas.

To support their grant partners and community, some foundations open their office spaces to nonprofit tenants.

For example, the Charles A. Frueauff Foundation (CAFF) moved its headquarters into the River Market district in Little Rock, Ark., and now provides affordable office space for nonprofits. According to the foundation, its shared space program affords nonprofits physical office space to help them further their missions—and their budgets. Nonprofit tenants may reside with CAFF for a minimum of two years and no more than five years. In addition to full-time office space, CAFF provides all nonprofits access to its board and meeting rooms.

A more flexible, nimble foundation might consider joining a membership-based co-working space, such as The Hub in San Francisco, New York, and Philadelphia, or GreenSpaces in Denver and New York. These options would work well for a foundation that supports social engagement, environmental issues, and causes that these organizations attract. This arrangement can be a great way to keep a finger on the pulse of what's going on at a ground level, and match the foundation's mission and values with your choice in office space.

One more option for sharing space is joining an executive suites service (Regus is a well-known example). Memberships offer a sophisticated physical office, a mail-forwarding service, telephone center and support staff. This can be an affordable option—especially for foundation trustees and staff that aren't tied to a central location—and is one step beyond a home office, without getting locked into a lease.

Dedicated Foundation Office

If you have more than one staff person or plan to convene grant partners and/or community members in your office, a stand-alone foundation office may be the way to go. To get started, you might contact a commercial real estate agent or broker who can show you spaces that match your specific requirements. Before signing any lease, of course, have your attorney review the document.

Having an office gives your foundation a presence in the community. It's also a chance to show the community what you care about. Your office space can be a physical reflection of your values.

One of the best-known examples of this is The David & Lucile Packard Foundation. During its first 50 years, the Foundation has occupied eight buildings in or surrounding Los Altos, Calif. The Foundation's most recent headquarters is a net zero energy and LEED® Platinum "green" building. According to president and CEO Carol Larson, this was a conscious way to live the values the Foundation supports. "In building our new headquarters to the highest standards of sustainability, and in a way that others can replicate, the Packard Foundation has taken the extra steps necessary to truly live its core values and mission," Larson says.

Now operating the largest Net Zero Energy certified building in the world, the Foundation hopes to inspire others to construct buildings that are more environmentally sustainable.

Another example is the Self Family Foundation in Greenwood, S.C.. The Foundation wanted to invest in revitalizing its town center. It supported a city center master plan to do so, and one of the keys to this was doing something with the Old Federal Building, which had fallen into disrepair. The foundation provided the funds to renovate the building, transforming it into an arts center. The foundation now pays a market rate to rent an office space from the Arts Council that owns the building.

"Renovating this building was a catalyst for helping the city gain federal and state dollars to renovate other parts of the town," says foundation president Frank Wideman. "Now, the downtown in thriving. We were able to leverage our money, bring economic activity back to the town center, and gain ourselves an office space in the process."

Plan Ahead for the Space You'll Need

When it comes to finding a physical office location, be very clear of your needs and expectations, says Bobbi Hapgood, president of Educational Foundation of America.

"We looked for a space that could accommodate us in terms of physical needs today, and we quickly outgrew the small office we leased. Luckily, we were able to take over the second half of the building we were in, because moving the foundation offices—with all the computers, furniture and records—wouldn't have worked well."

She recommends foundations think 10 years down the road. "Get a blueprint of what you want—now and in the future—and then match the location with that. And never underestimate how much space you will need."

What **Office Equipment** Do You Need?

When it comes to office equipment, the size of your office space and staff will generally determine what you need. Nevertheless, there are some essentials that you can't do without.

- Desktop or laptop computer (with microphones and camera for video-conferencing)
- Monitor, keyboard and mouse
- For larger organizations: a server and hub for network capabilities
- Multifunction printer, copier, and scanner (some still use fax machines; however there are online fax services that are just as easy)
- Office or mobile phone with a designated foundation phone number
- High-speed internet access
- Electronic file back-up system
- Desk, chair, and file cabinets (preferably fire-safe) as needed
- Surge protectors
- Postage meter (optional)
- Paper shredder (optional)

For more on software and technology, visit Tech Soup (techsoup.org), which has developed computer and technology standards for small to mid-sized nonprofits.

The Tools — What Technology Will Help You?

Just as in business, there's more to philanthropy than working hard; you also need to work smart. Technology makes it easier to do more with less.

Which tools can help you work smarter?

Tools for Communicating with Grant Partners and the Public

It goes without saying: Foundations and giving programs need to think about how they communicate with grant partners and the public.

Yet some family foundations hesitate when it comes to going public. Perhaps they wish to maintain their privacy, or want to be seen as humble stewards. But consider that when a foundation posts no information, people can still find out about them through 990s and other public sources. What happens if there is misinformation out there? Or the public information doesn't tell the complete story? Your foundation will still get inquiries—and they will likely be the wrong inquiries.

Don't leave it to chance that others will get your story right. Take control of your foundation's narrative through a public website. By communicating clearly on a website, you can help streamline the inquiries you receive—saving you and your applicants time. And by being transparent about what it is foundations do, you can help lift the entire field of philanthropy.

Websites

Transparency is important in philanthropy, and websites are an easy and effective way to share your foundation information and identity. Your website makes your mission, guidelines, and application easy to find and access. It puts a face to your foundation. When done correctly, it can also cut through the questions—saving you hours of time in answering inquiries from would-be applicants.

Most foundations have, at the very least, a simple brochure-style website that makes them accessible to the public. At a minimum, you will want your website to feature the following:

- Contact information—a point person, telephone number, email address/online form, and mailing address
- Mission statement (some foundations also include their vision and values statements)
- Grant guidelines—including what you do and do not fund, and a clear description of the grantmaking process (e.g., criteria, application requirements, deadlines, etc.)
- Examples of past grants

In addition, it can be helpful to include:

- An online or downloadable grant application
- Key staff and bios
- Board of directors list and bios
- Foundation history and/or founders' story
- Link to Form 990-PF
- Grantee stories
- Information for the media
- Opportunities to connect with your organization through social media

There are many options when it comes to creating a website. You can build the site yourself (or ask a tech-savvy family member to do so) using website software or online templates. You can hire a graphic designer to design a customized site for you. (Wordpress is a popular option that allows you to maintain the site yourself once it's up and running). Or you can use FoundationWebBuilder, the Foundation Center's free service, which provides foundations a professionally designed site without the cost or hassle. With the growing popularity of mobile devices, it's also important to consider mobile-responsive options that render your site effectively on smartphones and tablets.

For more on the importance of foundation transparency, visit glasspockets.org and fundforsharedinsight.org.

Social Media

Social media can open you up to a whole new world of connecting and learning from others. It is a great tool for your foundation to join in the conversation about causes you care about. It's also a powerful way to support your grantees—showcasing the good work that they do.

More private foundations have active Facebook pages, Twitter feeds and YouTube channels—and many foundation leaders and staff are using personal social-media accounts to talk about their work, follow grantees, and connect with peers. Yet social media can feel daunting at first for both new and seasoned foundations alike. Technology changes fast, and it takes time to keep up with all the latest trends, tweets, and tools. Social media also means inviting even more exposure for your foundation than a website alone—something your foundation may or may not be ready for.

Unless you hire a consultant to handle your communications for you (which some foundations do), someone on your board or staff will need to be in charge of maintaining the foundation's social media presence—ideally on a daily basis. This makes social media a management issue as much as it is a communications one.

Before diving into the social media scene, consider these questions:

- What are your goals for communicating via social media?
- Which audiences are you most looking to reach?
- What interest and internal capacity do you have to manage social media?
- What is the appropriate "voice" for the foundation?
- What is a clear process you can set for who, what, and how often to engage in social media?
- What is appropriate use of social media for family members, board members, or staff who use their personal accounts to talk about their work?

For more on websites and social media, see Chapter XX on Communications.

Online Grant Applications and Grants Management Software

Online grant application systems can be a big timesaver for you and your grant partners. For grantseekers, it's usually easier to fill out an electronic form and submit it online than it is to create a standalone document and send it in by mail or email. Similarly, an online application system gives board and staff members access to grant applications without having to print a single page.

➤ For sample online grant applications, visit the Meadows Foundation (mfi.org), the Edith Bush Charitable Foundation (edythbush.org), or the W.K. Kellogg Foundation (wkkf.org).

Most online grant applications come as part of a larger **grants management software system**. There are many vendors offering these systems, and each range in terms of complexity and price. Some of the well-known vendors include Common Grant Application, FLUXX, Foundant, MicroEdge and PhilanTech.

Once upon a time, all software had to be directly installed onto computers—but more and more, vendors are hosting software that users access remotely via the cloud (meaning, you can access it from any computer over the Internet). At the time of this publication, small packages can support straightforward online application, review and grant reporting for around $3,000 per year; while a custom-built solution for a large foundation can cost more than $200,000.

You may find it easy to manage without such software. Yet, even relatively small grantmaking programs involve tracking dozens of applications, reviewers, requirements, and payments. Grants-management software also allows you to collect data online—for example, through grant applications or grant progress reports.

If your process is complex enough that you're wondering whether a grants-management system might be helpful, do some research. Think first about your goals. What are you trying to achieve, and what tools would best serve you? What information do you need to track during a grant cycle, or after the cycle has ended? How would a grants management system streamline your operations and improve your efficiency?

Here are some additional questions to consider when looking at various packages:

- Will the system make it easy to gather the information and data you require?
- Can the application meet all of your current and anticipated needs?
- How much does it cost? Will it be cost effective?
- How could it help your grantees?
- Can the software be customized to your needs?
- Is the software online or installed? What are the benefits/risks of each?
- What security measures are in place to protect your foundation and grant partner information?
- Is the software compatible with your current technology infrastructure (e.g., accounting software, board website, etc.)?
- Will training be needed for board and staff?
- Is technical support available, and does it cost extra?

Read the latest grants-management system consumer report on Idealware.org to compare different vendors and software packages. You can also visit ProjectStreamline.org, a project of the Grants Managers Network, which offers reports on streamlining online applications and a review of seven of the most popular vendors. In addition, seek recommendations from other funders that are similar in size, infrastructure and number of grants per year.

COLLEAGUE STORY:

The Self Family Foundation recently transitioned to the web-based grants-management system MicroEdge GIFTS.

"It's given us capabilities we didn't have before (e.g., electronic applications) and has helped us streamline our operations," says foundation president Frank Wideman. "In the past, our board packets were hard copies. Now we use DropBox to transmit our dockets and proposals, and all of our trustees have iPads to open the documents at meetings. We've become electronic in the way we do business."

Wideman notes that the foundation still takes paper proposals as well as electronic, respecting the fact that not all of its grant partners have the technology to do online applications.

Communicating with Trustees, Staff, and Extended Family

What is the role of your foundation in the life of the family?

The answer to this question will be different for each foundation, and it alone may determine how much, how little, and in what ways the board, staff and family communicate with each other.

For foundation boards and staff, getting the work done well requires communicating and coordinating among many people. Many foundations turn to technology to work more efficiently and stay in touch in between meetings. Certainly, there is no shortage of tools that make communication simple, fast and effective.

To find the best technology for your foundation, start by surveying your board and staff needs. *Is it challenging finding a date for board meetings? Do trustees live in different towns or states, and need a way to connect with each other more frequently? Does emailing back and forth feel overwhelming?* Questions like these will steer you toward what tools would be helpful. You can also get ideas from talking with other foundations about what works for them.

Before bringing on any new tech tools, be sure to consider board members' level of comfort with technology, as well as individual working styles. Some people may be resistant to change, and you may need to balance what's best for board overall. A little training (or patient hand-holding) upfront can make a difference in how receptive people are to new technology.

Here are just a few of many tools you might consider:

Meeting Scheduling Software

Foundation boards meet in person or by phone several times a year, and coordinating busy schedules can be challenging. If your board actively uses the same calendar system (such as Google Calendar or Microsoft Outlook), it might be easiest to schedule a meeting or site visit by viewing everyone's calendar online and choosing a date that works. However, if calendars are not up-to-date, this might cause confusion.

Meeting scheduling software is often available for free online (Doodle is a popular option). This software enables a meeting organizer to offer date and time options to attendees, compile responses, and set a time that works for everyone. The scheduler then sends an automated email to the group to save the date. Other calendar management tools with more functionality include Congregar and ScheduleOnce.

COLLEAGUE STORY:

"What's great about a Doodle poll is that it gives individuals a chance to look at their calendars at home, and then schedule or respond to event requests," says Bobbi Hapgood, president of the Educational Foundation of America. "As the organizer, when I'm scheduling a meeting, I can see everyone's choices, and so can everyone else. It's a transparent document." She says the foundation has also used the survey tool SurveyMonkey to help poll for locations of board meetings, dates, and activities, as well as survey their grantees for feedback.

Phone and Video Conferencing

Conference calls remain a useful option for meetings where you must accommodate some board members remotely. Many options are available at low or no cost—including FreeConferenceCall, Budget Conferencing, and AT&T Conferencing.

More people prefer video conferencing for a more interactive experience. Again, many no-cost or low-cost options exist: Skype, Oovoo, Google Hangout and FaceTime are just a few, and each has its own capabilities. You will want to make sure everyone has a computer or mobile device with a web cam.

In addition to keeping the board and staff in touch, video conferencing can also be used as a part of grantmaking. Some foundations use video conferencing to interview grant applicants in lieu of a site visit (particularly for grant applicants that are located in a different area than the board).

Webinar Software

Webinars are not just for online courses: They are another way to connect board members virtually. Webinar technology is a step up from video conferencing, as it allows participants to view documents and presentations over the Web and through screen sharing. These systems also allow you to record the meeting and distribute it to those who couldn't attend. Popular webinar software includes GoToMeeting, GoToWebinar, WebEx and Live Meeting.

COLLEAGUE STORY:

The Frieda C. Fox Foundation uses GoToMeeting or Google Hangouts for conference calls and board meetings. According to executive director Annie Hernandez, video conferencing allows remote board members to join in remotely and get to see each other. The foundation also uses short video clips as a part of its meetings. "These days, anyone can make videos using a phone. We have family members make a short 30-second video recap of their site visit to share with the rest of the board. This gives others a snippet to visualize the place and people there. We then share the videos through our You Tube page."

Document Sharing

It used to be that bulky board books were printed and shipped to each board member in advance of meetings. Today, most foundations share information electronically—a more efficient and lower cost option than hard copies.

There are many options for sharing documents simply and securely on the web. Online storage services (such as DropBox, Box and Google Drive) are some of the most commonly used. Anyone can upload a file or create a folder and share it with others.

Some foundations customize their own board website—a password-protected area of where they can not only share documents, but also post news, offer feedback, download meeting minutes and more. Many web hosting services will create these pages for an added cost. The Max M. and Marjorie S. Fisher Foundation, for example, has a family-only section of its website where it shares board agendas and meeting minutes accessible only to the family.

Online workspaces (also called web portals) are a practical solution when sharing *a lot* of documents back and forth, and/or collaborating between many people. They often offer more sharing capability than online storage services and board websites can provide. Examples of online workspaces include OneHub and WizeHive. Some workspaces can be used to manage calendars, communicate with others in a group, and manage projects and tasks across different devices (desktops, laptops, tablet computers, etc.).

COLLEAGUE STORY:

Annie Hernandez, executive director of the Frieda C. Fox Family Foundation, learned from a previous experience that sometimes an extensive, customized back-end to a website isn't used to the level a foundation hopes it will be. She approached the website redesign differently for the Frieda C. Fox Family Foundation. "We found out our board and family members want to access documents and information, but not much beyond that," Hernandez says. "My advice would be to start with something simple, like DropBox or OneHub (what we use), and see how people interact with it. Have a space where people can download documents; it doesn't have to be fancy.

Project Management

Board portals are another option for document sharing, as well as a project management tool. They function as a one-stop-shop option to handle all board tasks in one system. Most are subscriber-based services where users can schedule and prepare for meetings, create board books, share feedback, and take notes as they review materials. Examples of board portals include BoardEffect, BoardVantage, Diligent Boardbooks and Directors Desk. These portals are available at a range of prices.

There is also a number of project management and collaboration tools that help teams manage tasks without email (e.g., Asana, SmartSheet). Search for "online project management tools" if you are interested in comparing capability and pricing.

E-newsletters and Email Updates

Some foundations like to send out monthly or quarterly updates and news to the board and/or extended family members. A foundation might also send an external e-newsletter to grant partners and colleagues. Web-based email service providers such as MailChimp, Constant Contact, Aweber, or Campaign Monitor make this process quite simple. Among other functions, these services provide email templates and list management—making it easy for you to create your content and hit send.

COLLEAGUE STORY:

The Durfee Foundation in Los Angeles sends a short biweekly newsletter it calls "Sticky Notes" (a pun on the fact that the family founded Avery International). "We use the Sticky Notes emails to keep trustees updated," says President Carrie Avery. "We send it out to current and past trustees, family members who are not on the board, and the next generation—giving them an idea of what's happening with the foundation." The foundation uses the free email service provider MailChimp to send out these e-newsletters.

If you don't want to use email software, a simple document attached to an email will do. Another foundation creates a PDF out of a Word document, and sends it that way. According to the director, "Rather than use an email service provider, which can cause some emails to end up in spam folders, we keep it super low tech and send it ourselves."

Online Survey Tools

It helps to set up a system to regularly ask for feedback on foundation operations. Survey the board, the family, and your grant partners—either in person, on a hard copy document, or electronically through an online survey tool (SurveyMonkey and Zoomerang are popular). Surveys or interviews can reveal blind spots you aren't aware of and can help you improve operations and grantmaking. When designing any survey, give respondents the option to remain anonymous. You may get more honest answers that way.

For example, one family foundation surveyed its grant partners a few years ago in conjunction with the Center for Effective Philanthropy, and to its dismay, discovered its grant partners thought the foundation seemed disorganized and unresponsive. According to one board member, "We were able to use the survey results to reflect on ourselves and how we were operating. It became more than airing family issues. With this data from the outside world, we were able to address some of the issues in the family that weren't being addressed." The family swiftly made changes to address the operational issues, and changed its perception.

Final Words

As you can see, there are many different options for how you structure, staff, house and run your family foundation. Each of them will take you down a new path of learning and outcomes.

Although it may at first seem overwhelming to set up or restructure a family foundation, it doesn't have to be. Take heart: The management choices you make today are not forever. You may find they work for a year, or two or ten, and then your foundation changes course—along with your management style and systems.

As a family foundation colleague once said, "Let's go as far as we can see, and then see how far we can go."

You may not know how you will evolve, but one thing is certain: you will evolve. Be thoughtful about your choices, and enjoy the adventure. ■

FINANCE

BY JASON BORN, PAM HOWELL-BEACH, AND SARAH STRANAHAN

"The highest use of capital is not to make more money, but to make money do more for the betterment of life."

—*Henry Ford*

Fiduciary defined

A fiduciary is a person, company, or association holding assets in trust for a beneficiary. The fiduciary is charged with the responsibility of investing the money wisely for the beneficiary's benefit. Most U.S. states have laws about what a fiduciary may or may not do with a beneficiary's assets. For instance, it is illegal for fiduciaries to invest or misappropriate the money for their personal use.

Source: Barron's Dictionary of Finance and Investment Terms

When your family creates its foundation, it has a responsibility to manage and invest its philanthropic assets. The responsibility, which comes with a number of complex questions and decisions, is — or can be — both a challenging and rewarding experience, and is probably best thought of not only in terms of the value of the assets, but also of the value of what those assets can accomplish.

As someone who is about to establish or join the governing board of a family foundation, you may or may not be familiar with and skilled at thinking about your personal or business investment goals and strategies. But regardless of your financial background and experience, you will have a special responsibility as a fiduciary when you agree to serve on the board of a family foundation.

A fiduciary agrees to invest and manage assets on behalf of another, and fiduciary duty is held to the highest standard of care in equity and law. In the case of a private foundation, your fiduciary duty is to the foundation's charitable mission.

As a foundation board member, you will be making important financial decisions for a legal entity that is regulated by the Internal Revenue Service and state agencies. You will assume legal and ethical duties of obedience, loyalty, and care to the foundation. Those duties require you first and foremost to adhere to the foundation's charter and mission, avoid self-dealing and conflicts of interest (see the legal chapter), keep the foundation's best interests in mind, and act as a "prudent investor" on behalf of the foundation. Private foundations enjoy special tax privileges because they are dedicated to serve a charitable purpose, and this charitable purpose, or mission, should inform all aspects of your financial decision making; governance and management structure, goals, investment policy; grant budget, and administrative and investment expenses.

You will be acting in a community of other board members; often your siblings, children, or in-laws, and next generations who also need to understand and exercise their fiduciary responsibilities with regard to the foundation.

This chapter aims to help you and your board develop finance and investment policies and practices that meet all legal requirements and are consistent with the goals and mission of your foundation. Sections in the chapter aim to help you:

- Link financial goals to philanthropic mission
- Establish the spending policy and administrative budget
- Create an investment policy and management policies
- Establish and review asset allocation targets
- Oversee your investment policy
- Avoid self dealing and other legal pitfalls

FIGURE 1: Glossary of Key Investment Terms for Family Foundations

ASSET ALLOCATION. The practice of spreading risk across a range of investment assets and management styles to balance the effect of market forces and volatility in relationship to the risk level that is acceptable to the investor. According to modern portfolio theory, as much as 95 percent of the return of a diversified portfolio of assets is attributable to the distribution (allocation) and regular rebalancing of a range of investment classes and styles within those classes.

EXCISE TAX. The tax on the net investment income of private foundations of 2 percent per year. This tax may be reduced to 1 percent under certain circumstances.

FIDUCIARY RESPONSIBILITY. The task of investing money or acting wisely on behalf of a beneficiary. In the foundation field, such responsibility is exercised on behalf of the donors and the grantees.

LIQUIDITY. The ease with which a financial asset can be converted to cash.

PAYOUT REQUIREMENT. The Internal Revenue Service requirement that private foundations must distribute 5 percent of the value of their net investment assets annually in the form of grants or eligible administrative expenses.

RATE OF RETURN. A measure of investment performance for a specified pool of assets. The rate is determined on a total return basis, including realized and unrealized changes in market value in addition to earned income (i.e., dividends and interest income). Managers may report returns before or after management advisory fees, but returns are always reported after brokerage and trading costs.

REBALANCING. A common strategy used to ensure that asset allocation guidelines are met over time, as changes in the portfolio occur due to changes in the values of individual assets. There are two primary rebalancing strategies: calendar and threshold. Calendar rebalancing is typically done on a quarterly or annual basis. Threshold rebalancing is done whenever guideline ranges are exceeded. Under either method, trustees can choose to rebalance back to the endpoints of the asset allocation guideline ranges or back to the target or "normal" allocation. Many consultants favor rebalancing back to the target on an annual basis because it results in lower transaction costs than other approaches.

RETURN REQUIREMENT. The rate of return on investment needed by a private foundation to meet its spending goals. For example, for a foundation that intends to exist in perpetuity, the return requirement is that its investment returns be equal to (or greater than) the total of (1) its grants spending objective, (2) the expected average annual inflation rate over the investment time horizon, (3) its estimated annual operating expenses, and (4) its estimated investment fees and expenses.

RISK. The measurable possibility of losing or not gaining value.

SOCIALLY RESPONSIBLE INVESTING. A style of investment decision making that takes into account social and environmental, as well as financial, concerns. One form of this is known as "mission-related investing," which attempts to align an institution's mission with its investment strategies.

SPENDING POLICY. An agreed-upon policy that determines what percentage of a foundation's endowment will be spent to cover both the operating costs and grants of an institution. Typical spending rules combine calculations based on previous years' spending, the current year's income and investment return rates, and the policy of the foundation for covering grant commitments.

VOLATILITY. A measure of the degree to which the price of a security goes up or down over a specified period. Highly volatile stocks tend to move up or down more than the market as a whole, while those with low volatility move up or down less than the market as a whole.

Linking Financial Decisions to **Philanthropic Purpose**

If you and your family have a clear and shared understanding of your foundation's mission, many of your financial decisions will flow naturally from that mission. Your philanthropic mission will inform the spending policy of your foundation, the investment strategy designed to support that spending policy, and the administrative structure and expenses that best support those goals.

If you are still working to establish your mission, don't despair. You can still exercise fiduciary responsibility while working to define a mission, and you can even thrive with a broad and evolving mission if that is the best way to fulfill your hopes and dreams for the foundation.

The answers to a few basic questions about your foundation's lifespan, mission, size, staffing and scope will help determine what financial goals and structures makes sense for your foundation.

- Are you creating a long-term legacy that you hope will survive for many generations, or do you have a shorter term goal for your foundation?
- Do you have a specific measurable mission or will your foundation support a wide range of interests and projects?
- Are you considering aligning your investments with your philanthropic mission?
- How large are your foundation's assets? Are they likely to grow in the foreseeable future though additional contributions?
- Will your board do most of the work of the foundation, or do you plan to hire professional investment and grantmaking staff?

An Important Note on Mission-Related Investing

Foundations have traditionally managed their investments to achieve the greatest possible financial returns. In turn, they were agnostic about where they invested their money — even if it meant that some of the companies in their portfolios might operate in industries that run counter to their missions.

But over the past 30 years, an increasing number of foundations have chosen to align their investment practices with their missions through a practice called "mission-related investing".

Foundations that practice mission-related investing seek to avoid specific investments in industries such as tobacco or fossil fuels, that run counter to their missions. Clara Miller, director of the F.B. Heron Foundation, explains how her foundation chose to invest only in companies that support its mission:

> *"Grants are one tool — but not the only tool — we have at our disposal, and to define ourselves primarily as a grantmaking foundation is limiting. Endowments have always been a source of investable capital for fostering businesses, industries, and nonprofit organizations that may be able to help in overcoming the new economic*

challenges. Philanthropy's financial tool kit should include every investment instrument, all asset classes, and all enterprise types. The way we deploy capital and the assumptions and approaches we use to do so can in themselves make a difference. We plan to invest 100 percent of our endowment—as well as other forms of capital—for mission."

Foundations that choose to engage in mission-elated investing have access to a number of resources to help guide their decisions. A good place to begin is the Mission Investor's Exchange, a clearinghouse and resource center dedicated to helping foundations design their own mission investment programs.

Considering Perpetuity

Will your foundation last for a specific number of years, cease to exist when it achieves a specific goal, or exist in perpetuity? The answer to this question will shape your foundation's investment strategy. If you are the founder, you can spare future generations a great deal of hand-wringing by making your intentions clear.

If your main goal is to support an issue that requires urgent attention, you may choose to focus your foundation's grantmaking activities over a short and concentrated period of time. Trustees of a foundation destined to spend all assets by a certain date will want to emphasize current income and liquidity in their investment strategy. Those governing a perpetual foundation will likely want to develop a strategy designed for long-term growth. However you may feel about the question of perpetuity, consider carefully what you want to accomplish — and what you want your family to accomplish — prior to committing to a long-term investment strategy or spending policy.

The number of family foundations that have decided to spend down is still small — fewer than 10 percent of U.S. family foundations have chosen to limit the lives of their organizations, according to NCFP's 2015 Trends in Family Philanthropy Survey. But the Trends results also show that this number is growing. Nearly 20 percent of the newest family foundations have already chosen to operate with a limited life, the survey found. By comparison, only three percent of those founded before 1970 have made this decision.

If that trend continues, the percentage of family foundations operating as spend down will likely grow substantially in the future. Perhaps even more significantly, more than 60 percent of family foundations in the country indicated that they have not yet made a decision around life span, or that they revisit the question of perpetuity from time-to-time.

The choice between spend-down and perpetuity ultimately should be based on what is best for the family and its philanthropic goals. But the fact that the choice exists — and is being talked about — is a very healthy development. Choice provides flexibility and offers the ability for families to be able to achieve the most possible good with their philanthropic investments.

One foundation that chose to spend down is the Aaron Diamond Foundation. In the late 1980s, foundation president Irene Diamond and the rest of its trustees recognized that they had an opportunity to make a real difference in AIDS research, an area that at the time was sorely lacking funding. With this in mind, the foundation increased its annual grantmaking to a level that allowed it to become a key supporter in AIDS research. Despite the fact that this decision resulted in the foundation spending itself out over the next decade, the board felt that the subject was important enough to warrant such an approach.

An equally compelling case can be made for creating philanthropic funds that build resources now and for the future. This approach has long guided the Harris and Eliza Kempner Fund in Galveston, Texas. Started in 1946 by five members of the Kempner family, the original donors, as well as the current trustees, recognized the value of a perpetual foundation, as described in the fund's 1996-1997 biennial report:

> *The impetus for starting a foundation in 1946 came from the family's concern for the many local charities it supported. They realized that conditions that typically follow economic depressions and wars could affect their ability to support charities in times of greatest need. A philanthropic philosophy thus evolved: "Allow the more prosperous years to provide for the lean ones."*

Establishing the **Spending Policy**

Your family foundation's spending policy determines the annual budget both for operating costs and grants. Internal Revenue Service regulations require that private foundations spend at least 5 percent of their net investment assets as "qualifying distributions" each year. Qualifying distributions — also referred to as "payout" — of a foundation generally include:

- Grants to public charities, nonprofit organizations, and individuals (note: special IRS rules must be followed when making grants to individuals)
- Amounts paid to acquire assets used directly in carrying out the charitable purposes of the foundation
- Administrative and programmatic expenses associated with grantmaking

Not all operating costs count as qualifying distributions. For example, the cost of overseeing your investments; investment management and advisory fees, investment committee expenses, custodial fees, and investment accounting and tax preparation do not count toward your qualifying distributions.

Bottom Line:
The IRS mandated payout is a minimum not a maximum

Your family foundation must meet federal annual minimum payout requirements, but you may choose to pay out more. Foundation boards address a number of important questions when setting — or evaluating — the spending policy of their foundation, including

- Does your foundation board want to exceed annual, minimum payout requirements? If so, by how much? In every year, or only in years in which the foundation's investments do well, or counter-cyclically, by spending a greater percentage in years in which the endowment value is down, and less in high-return years.
- What administrative structure and staffing will best support your philanthropic mission? There is a fine line between the virtue of frugality and the folly of failing to invest in your own capacity. Which investments in professional staff, travel, education and development, and networking will make you a more effective foundation?

Examples of the primary goals for spending policies adopted by foundations include:

- Meet the minimum distribution requirement (5 percent annually);
- Maintain or moderately increase the value of the endowment and distribute the remainder of the investment return; and/or
- If your foundation is spending out, pay out at an aggressive rate of 10 percent or more per year, with the expectation that all assets will be paid out within a predetermined horizon.

Determining Your Administrative Needs

There is no set rule for determining your foundation's administrative budget, but it is vital for determining your overall spending policy and thus your investment strategy. Administrative costs can vary significantly from foundation to foundation, depending on a number of factors. Boards must make key decisions regarding mission and grant priorities, which then determine staffing and other administrative needs. Considerations include:

- What is the geographic scope of your giving: local, regional, national, or international?
- Will you be making a few large grants to well known repetitive grantees, or do you expect numerous and frequent new applicants?
- Does your mission require you to develop, contract, or hire deep expertise in a particular issue area?
- How much time and energy do you plan to spend on due diligence of grant applications and on evaluation of your grantmaking program?
- Which administrative tasks is your board ready, willing, and able to handle? And how much professional staff support will you need?

Generally, staff or a board committee will prepare a detailed administrative budget based on the resources needed to accomplish these goals. Your board will review and approve this budget, and track actual and budgeted expenses monthly throughout the year. This process is completed every year, and administrative needs will likely change as the trustees revisit your foundation's priorities over time.

FIGURE 2: Example of a Family Foundation Spending Policy

INTRODUCTION:

The foundation is adopting the following spending policy in order to:

- Provide a more predictable and stable stream of revenue for its grantmaking and other activities; and
- Maintain the purchasing power of this revenue stream and the foundation's assets over the long term.

To achieve these goals, over a multiple-year period the trustees will take actions that will result in total spending equaling no more than 5.3 percent of a 3-year average of the market values of the foundation's assets at the beginning of the fourth quarter.

SPENDING RULE:

In calendar year 2018, the foundation will set its annual spending at the 2017 spending level, plus funding needed for one-time capital expenses of the __________ project.

In calendar year 2019, spending will be set at the 2018 spending level or 5.3 percent of the average of the market values of the foundation's assets on October 1, 2017, and October 1, 2018, whichever is greater.

In subsequent calendar years, spending will be set at the previous year's spending level or 5.3 percent of the average of the market value of the foundation's assets at the beginning of the fourth quarters of the preceding 3 calendar years, whichever is greater. In no case will spending exceed 6 percent of the previous year's market value (as determined as of the beginning of the previous year's fourth quarter).

The trustees will undertake a formal review of the spending rule at least once every 5 years. Should future market values either increase or decrease dramatically, the trustees will reconsider the spending rule, and either adjust spending or make changes in the spending rule as appropriate, keeping in mind the above stated goals.

Developing an Investment **Strategy and Policies**

Once you have established an initial spending policy for your foundation, you are ready to develop an investment strategy to help meet requirements of that policy. Several important steps are involved in developing an investment strategy. These include:

- Determining your risk tolerance
- Designing a management and oversight structure for your finances
- Calculating your target return requirement
- Developing an overall asset allocation strategy
- Developing the strategy and a written investment policy for the foundation

Determining your Risk Tolerance

A core precept of financial theory is that there is a positive relationship between risk and return. Riskier asset classes have greater potential payoff, but a higher likelihood of falling outside of expected returns (sometimes above, sometimes below). By definition, riskier investments can also result in significantly lower returns in some years, potentially making it difficult to meet multiyear grant commitments and future cashflow requirements. Used in moderation, however, riskier asset classes can actually lower the overall risk of the total portfolio.

Risk tolerance refers to your board's tolerance for the likelihood and frequency of realized investment returns falling below expected returns. It is the board's responsibility to assess the trade offs between risk and return, including a frank consideration of worst-case scenarios resulting from excessive risk avoidance or overly aggressive asset allocation. Some boards are uncomfortable with highly volatile asset classes, and choose to steer clear of them in the asset allocation decision.

Apart from certain risks that you must not take — such as self-dealing, jeopardizing investments, neglecting diligence and oversight, and failing to diversify your investments — the amount of risk you are willing to take to maximize your returns or your impact is a board decision. Periodically, the board should have a conversation to determine and review the foundation's risk tolerance. [Note: For an example of how one foundation's board evaluated its own collective risk tolerance, see the sample "Investments Questionnaire" developed by ACG and used by the board of the Stranahan Foundation in the Splendid Legacy 2 online resource.]

Calculating a Target Return

The targeted return for your foundation will depend on your long-term goals. It will include funds to cover your qualifying distributions, investment-management costs, and excise-tax obligations, but often exceeds these minimums to include an inflation or growth premium.

For example, a foundation with a 5.5% spending policy (including grants, allowable administrative expenses and excise tax) that also pays 1% in investment management fees during a period when inflation averages 2.5% would need to achieve an average annual investment return

FIGURE 3: Calculating the Return Requirement

RETURN COMPONENT	PERCENT OF AVERAGE ASSETS
Spending objective	5.50
Expected rate of inflation over investment time horizon	2.50
Estimated investment-related fees and expenses	1.00
Average annual investment return required	**9.00**

of 9% in order to maintain the inflation adjusted value of their portfolio. If this foundation hopes to grow the real value of its endowment, it will have to exceed a 9% average annual rate of return over the long term.

In some periods, foundations have been able to achieve target return goals of 10-12% without taking on unusual levels of risk. However, there have also been long periods, for example, between 1968-1981, and again between 2000-2010, when most foundations failed to realize their targeted return and average endowment values declined significantly in real dollars. After the 2009 financial collapse, several of the more aggressively invested foundations even experienced a liquidity trap; that is, their liquid assets were less than their payout requirements.

Since 2008, family foundations have experienced a prolonged period of low returns. Traditionally low-risk investments—like T-bills and high-grade corporate debt— have not had yields that support most foundation's targeted returns. It remains to be seen whether the global economy will return to longer-term average growth and interest rates.

If you hope to realize a 10% return today, you will probably be advised to invest in riskier, more expensive, and often illiquid, assets, such as high-yield bonds, emerging market debt, private equity or hedge funds. It is your board's job to decide what level of risk you are willing to take to reach your targeted return, or if you are willing to accept that you will "under perform" your target in order to reduce your downside risk.

Establishing An Asset-Allocation Strategy

The asset-allocation strategy is the primary determinant of your investment returns. This strategy is the key investment focus of your board (and/or investment committee), and is far more important than individual security or manager selection. Some observers estimate that as much as 95 percent of a foundation's investment returns result from its asset allocation decision. (This estimate comes from Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, in their "Determinants of Portfolio Performance," *Financial Analysts Journal*, July-August 1986, pp. 39-44. While some practitioners dispute the exact figure, the fact that asset allocation is the single most important determinant of portfolio performance is almost universally accepted.)

As a fiduciary, you are mandated to diversify your portfolio. Diversification among asset classes reduces risk, because each type of asset responds differently to changes in the market. Because asset classes perform differently under different time periods and conditions, foundation rates of return are stabilized and improved by mixing asset classes that have different characteristics and patterns of return. For a visual presentation of the need to diversify your assets, see a sample "Broad Asset Class Performance" quilt showing the variance in best and worst performing asset classes over a 13-year period, available in Splendid Legacy Online (www.splendidlegacy.org).

A Note on **Alternative Investments**

Alternative investments are investments that do not fall under the category of traditional publicly-traded stocks, mutual funds, bonds or cash. Examples of alternatives include hedge funds and private equity. Before including alternatives as part of your investment strategy, it is important to consult with an experienced tax or legal advisor who is knowledgeable regarding the tax and compliance implications for private foundations. For example, some alternative investments may require special reporting (in addition to the 990PF) to the IRS and some may subject the foundation to federal Unrelated Business Income Tax (and related tax filings) and potentially in multiple states. If you invest globally, that opens up yet another whole host of reporting requirements and tax considerations. In determining whether to include alternatives in the portfolio, foundation trustees will wish to consider the additional administrative, compliance, reporting and tax costs that may be incurred.

Adopting the **Strategy** and a **Written Investment Policy**

Your foundation's investment policy helps guide your board, your investment committee, and managers and consultants who manage portions of your foundation's portfolio. This policy addresses the following:

- **Statement of objectives:** ties the investment policy to the mission and goals of the foundation (may include the specific return requirement, description of time horizon, diversification, and target risk levels, etc.)
- **Oversight of the policy:** describes who will be responsible for various investment-related tasks (the investment committee, key staff person, outside investment managers, etc.)
- **Asset allocation:** provides guidelines for the acceptable range for each asset class as a percentage of the overall portfolio (see sidebar)
- **Rebalancing procedures:** describes how and when the portfolio is rebalanced (usually either annually or if one of the asset classes reaches the threshold of its acceptable range)
- **Performance benchmarks:** include any of a number of possible common indexes and measures to help review ongoing performance (examples include the Standard & Poors 500, the Russell 2000, and the Lehman Aggregate Bond Index). Benchmarks are chosen based on their relevance to each asset class Jeffrey Leighton, former chief financial officer for the David and Lucile Packard Foundation and an experienced foundation investment consultant, offers the following advice or developing an investment strategy:

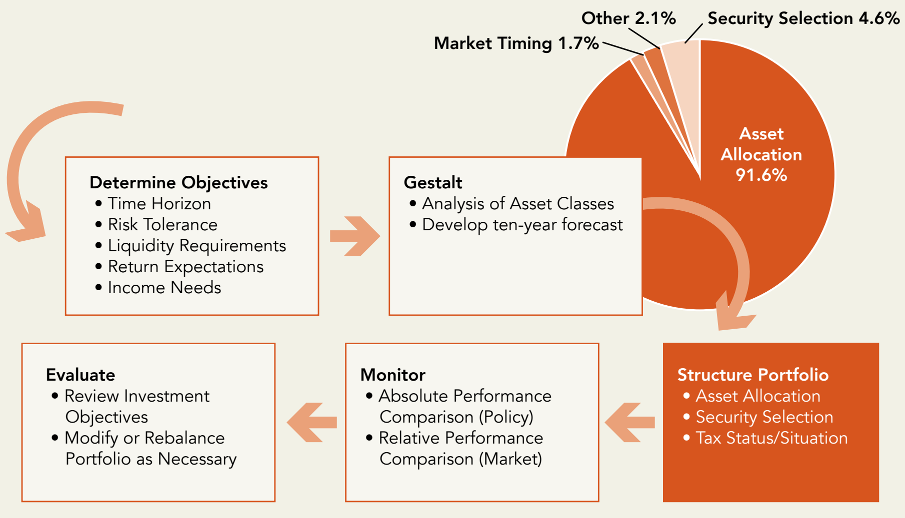
- The single most important strategy decision is the asset allocation policy. Manage risk by diversifying and investing to meet return objectives, not to maximize returns.
- Give policies and strategies time to work and stay the course through market upswings and downswings. Don't abandon a new strategy too soon. Investors who chase after the best returns end up doing just that — chasing after the best returns.
- Don't try to time or outguess the market. William Sharpe, a Nobel Prize winner in Economics, noted that the markets, on the whole, are likely to do just as well when an investor is out as when the investor is in.

- Avoid fads. David Salem, former president of The Investment Fund for Foundations, has noted that by the time a new asset class has proven worthwhile, the big bucks have already been earned.
- Review manager and total portfolio performance at least annually. Make sure that investment guidelines are being followed.
- Control costs. The best way for many organizations to improve overall returns is by exercising better cost control over fees and transaction costs.
- Rebalance the portfolio when you exceed asset allocation guideline ranges. Failure to rebalance the portfolio is tantamount to a decision to change the asset allocation strategy.
- The best investment strategy focuses on the investment process and policies, not the details.

SOURCE: Jeffrey R. Leighton. "Developing and Overseeing an Investment Strategy," Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Dollars.

The following flow chart shows the iterative process of creating, adopting, adjusting and evaluating your investment policy:

FIGURE 4: The Process



Courtesy of The Trust Company

An example of one investment policy, with descriptions of each of these components, is presented in Figure 5 (on p. 181).

FIGURE 5: Example of an Investment Policy for a Family Foundation

The purpose of this statement is to establish the investment policy for the management of the assets of the _____________ Foundation.

OBJECTIVES: The goals for the foundation's investment program are (1) to earn sufficient investment returns to provide for a 5 percent level of annual charitable distribution plus operation expenses, (2) to earn an additional return to maintain the purchasing power of the foundation's invested assets after distributions and expenses, and (3) to enhance the purchasing power of the invested assets, if possible. These goals will be pursued without incurring undue risk relative to the practices of comparable charitable foundations.

DISTINCTIONS OF RESPONSIBILITIES: The Investment/Finance Committee is responsible for establishing the investment policy that is to guide the investment of the foundation's assets. The investment policy describes the degree of overall investment risk that the Committee deems appropriate, given prudent investment principles and the basic objective of the preservation of the purchasing power of the foundation's assets.

Investment managers appointed to execute the policy will invest foundation assets in accordance with the policy and assigned policy guidelines, but will apply their own judgment concerning relative investment values. In particular, investment managers are accorded full discretion, within policy limits, to (1) select individual investments and (2) diversify assets.

ASSET ALLOCATION: It is the policy of the Investment/Finance Committee to invest the foundation's assets as follows:

ASSET CLASS	TARGET ALLOCATION (%)	ALLOWABLE RANGE (%)
Domestic Stock	55	51 – 59
Non-domestic Stock	15	11 – 19
Total Stock	70	67.5 – 75
Bonds*	30	26 – 34

**Bonds will have a minimum rating of BBB or its equivalent.*

REBALANCING PROCEDURES: Normal cash flows will be used to maintain actual allocations as close to the target allocations as is practical. At times, markets may move in such a way that normal cash flows will be insufficient to maintain the actual allocation within the permissible ranges. In these cases, balances will be transferred as necessary between the asset types to bring the allocation back within the permissible ranges, as described above. Rebalancing shall take place no less than once, and no more than twice, per year.

DIVERSIFICATION: The investment program shall be broadly diversified in a manner that is in keeping with fiduciary standards to limit the impact of large losses in individual securities on the total invested assets of the foundation.

LIQUIDITY: The foundation will advise investment managers of any anticipated needs for liquidity as such needs becomes known. Investment managers are to presume no need to maintain cash reserves other than those identified by the foundation.

PROXY VOTING: The Investment/Finance Committee delegates the responsibility for proxies to the individual investment managers. The Committee will vote proxies consistently and in the best interest of the foundation.

PERFORMANCE BENCHMARK: The foundation's investment objectives are to achieve a rate of return consistent with the asset allocation policy stated earlier. Over reasonable measurement periods, the rate of return earned by the foundation's assets should match or exceed that of a policy benchmark comprised of the following broad market indices and weights:

	POLICY BENCHMARK
Wilshire 5000 Stock Index (%) 55	55
MSCI All Country Ex-U.S. Index (%) 15	15
Lehman Brothers Aggregate Bond Index (%) 30	70
Bonds*	30

The individual managers' returns will be compared with appropriate market indices. For performance evaluation purposes, all rates of return will be examined after the deduction of investment management fees.

Overseeing the Investment Strategy

Setting your goals and risk tolerance and reviewing and ratifying key strategic decisions are board responsibilities that cannot be delegated. But your board can delegate much of the day-to-day due diligence of overseeing and implementing your investment policy.

Many family foundations establish an investment committee to oversee their investment strategy. Ideally, this committee is comprised of individuals with broad and diversified knowledge of investments. Investment committee members will be able to articulate the policies, actions, and results of the investment strategy to all current and prospective board members (whose understanding and experience in investments may be quite varied).

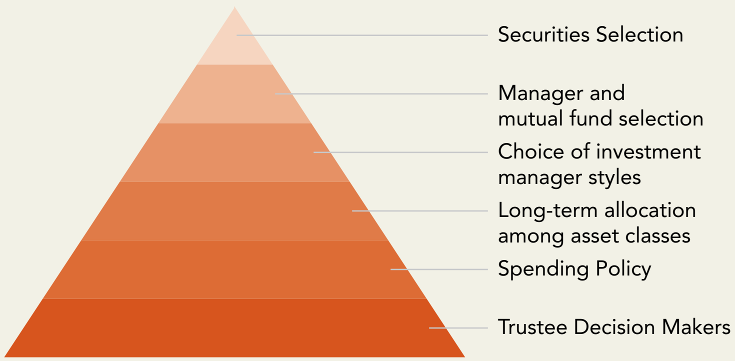
In addition to an investment committee, many foundations will hire investment consultants, investment managers, administrative staff, accountants and tax experts, and, for charitable trusts, a custodial bank, to oversee and manage their finances. As a result, it is important that investment policies clearly spell out:

- Which decisions can be made by each member of the team
- Who is responsible for which executing each step
- The time frame for reporting, review and evaluation of decisions
- Which records are neededand why,
- Communication protocols for each member of your team.

Foundation Endowment **Management Models**

In his seminal 2009 article, "Rethinking the Management of Foundation Endowments," John E. Craig, Jr., the longtime Executive Vice President and Chief Operating Officer of The Commonwealth Fund, describes several core foundation endowment management models. Craig notes that the management model is one of the key determinants of long-term performance, as illustrated in Figure 6.

FIGURE 6: The Principal Determinants of a Foundation Endowment's Well-Being



In his article, Craig describes three typical investment management models that family foundations may wish to consider:

- **Solo investment committee model.** For many small and mid-sized family foundations, the board's investment committee has virtually all of the strategic and operational responsibility for the endowment—working with little or no internal staff or consultant support. In such cases, the foundations typically delegate portfolio management to a brokerage firm, mutual funds, or external investment managers (often using commingled funds shared with other investors).
- **Investment committee-investment consultant model.** Foundations with larger endowments or more complex investment strategies will often hire an investment consultant to work with the investment committee to help inform and guide its decisions, and sometimes to help implement them. The amount of responsibility delegated by the committee ranges significantly under this model, depending on the capacities and preferences of the committee and the ability and services offered by the consultant.
- **Investment committee-internal financial staff-investment consultant model.** Foundations with assets of $250 million or more are likely to pursue a more sophisticated diversified investment strategy. Under these circumstances, the day-to-day management responsibilities require qualified staff. Often a professional staff member is also needed to ensure best use of the time and skills of the consultant and committee members. As a result, this model entails higher de facto (if not formal) levels of responsibility delegation by the investment committee.

Determining Investment Committee Responsibilities

Your investment committee generally assumes some or all of the following responsibilities:

- Ensures that the foundation's investment goals and objectives are in line with its grantmaking goals and objectives;
- Determines long-term allocation among asset classes;
- Determines choice of preferred investment manager styles;
- Determines whether to use separate accounts or mutual funds;
- Selects individual managers, consultants, and advisors (if necessary);
- Reviews the performance of individual managers and asset classes, and;
- Reports to the full board on the endowment's recent and long-term performance.

Depending on the complexity of these decisions, the committee may engage investment consultants to help them think through these responsibilities. In addition, a number of endowment management tasks must be undertaken regularly by committee members, foundation staff (if they exist), or an outside professional (accountant, lawyer, etc.). These activities typically include:

- Managing endowment cash flow;
- Monitoring asset allocation;
- Ensuring accurately reported quarterly and cumulative investment performance for individual managers and the endowment as a whole;
- Ensuring proper custody of endowment holdings and necessary recordkeeping on investment transactions;
- Preparing agreements with managers, mutual funds, brokers, and securities custodians;
- Ensuring that shareholder proxies are voted;
- Managing the investment consultant (if present); and
- Providing necessary staff support for the investment committee (scheduling meetings, distributing reports for discussion in advance, as well as providing advance reports on the endowment for board of trustees meetings).

SOURCE: John E. Craig, Jr. "Understanding Trustee Responsibilities and Duties," Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Dollars.

Finding Investment Advisors

Many family foundations work with outside investment advisors for some tasks. Below are several steps to consider when looking for outside assistance:

- Determine what types of assistance you are looking for (see sidebar);
- Develop a position description that lists the attributes you are looking for, including educational, experience, and performance requirements, as well as personality requirements and investment style;
- Talk with foundations, institutions, and individuals you know to get suggestions for prospective managers and consultants;
- Send a request for proposal (RFP) to those individuals/firms you would like to meet. This RFP will help your foundation determine each firm's experience, performance, fee structure, and staffing, as well as its research policy and practices, reporting procedures, and client service procedures; and
- Set up interviews with those candidates who meet your qualifications and requirements.

Selecting Investment Managers

Once your foundation has established an investment policy and asset allocation strategy, you may decide to hire one or more investment managers to select the actual investments, buy and sell stocks and bonds and handle the administrative aspects of investments.

Any investment firm or individual you approach will have tailored information on its performance over specific time periods. To ensure that you get helpful performance figures, make sure that those you meet with calculate performance in accordance with the guidelines of the Association for Investment Management and Research, and that they give you returns for 3-, 5-, and 10-year periods.

Questions you may wish to consider when interviewing managers include:

- What is their general approach to investing?
- What is the succession plan if they retire, become ill, or leave the firm?
- What other foundation clients do they work with? May you talk with them?
- What type of reporting and evaluation arrangement do they typically follow?
- What questions do they have about the position?

FIGURE 7: Family Foundation Investment Advisors

Trustees may find it useful to identify the particular talents they need. The following descriptions may offer a starting place:

- **Investment Committee:** Boards of many family foundations, even small ones, assign oversight duties to an investment committee, which typically reports to the full board quarterly.
- **General Advisor:** A family member, lawyer, accountant, consultant, or other person who offers general advice to the board.
- **Consultant:** A person who can help trustees to establish a decision making structure for investment management, develop a strategic plan, and find investment advisors and managers.
- **Manager:** A trustee, foundation employee, or outside manager who selects actual investments, buys and sells stocks and bonds, handles administrative aspects of investments, and reports to the investment committee.
- **Custodian:** A bank or trust company that holds assets, collects income, and reports periodically on investment activities.

SOURCE: Excerpted from Kathryn McCarthy. "Engaging Investment Advisors," *Resources for Family Philanthropy: Finding the Best People, Advice, and Support.* National Center for Family Philanthropy, 1999.

Before you hire a manager, you should ask yourself the following questions:

- Am I comfortable working with this manager? Does his or her style match my own?
- Am I confident that the foundation will receive significant added benefit for the fee dollars I am spending?
- Are there other options (index funds, mutual funds, etc.) I may wish to explore as an alternative to hiring an investment manager at this time?

Working with Investment Managers

If you decide to hire investment managers, you will want to establish reporting arrangements that make sense for both of you. Identify and agree on the performance benchmarks you would like to use, and establish reporting schedules for each of your managers. Investment managers should be expected to outperform their benchmarks on a net-of-fee basis, and if they fail to do so over an extended period (a couple of years or more), inquire as to the reasons why. Remember, though, that even the best managers will have periods where they under perform in relation to their peers or benchmarks.

Determine how often you would like the manager to report to the board, and in what form these reports are presented (for instance, quarterly written reports and annual board presentations). Evaluations should also account for the manager's investment style, and how this style may have affected recent performance. Ensure that the manager continues to follow the specific guidelines he or she has been given.

Evaluating Investment Managers

Investment managers are generally evaluated by following three questions:

- Has the manager adhered to the established investment plan and allocated assets as required?
- Have assets performed as expected?
- Is the chemistry between the family, foundation officers, staff, existing culture, and the manager good?

Monitoring can be done by a consultant, foundation officers, or foundation staff, depending on who has the qualifications and time.

The standard "market cycle" is about three years and it generally takes that long to determine fairly just how well an investment manager is doing. Still, performance should be checked closely for the first year after funds are fully invested and then monitored first quarterly, than annually thereafter. If performance is substandard, with no market-based explanation, a serious discussion or review should be considered.

Replacing Investment Managers

Most investment managers are replaced for one of two reasons:

- They drift away from the agreed-upon style. For example, the manager's style is to buy-and-hold growth stocks; but the manager spots potential "hot" stocks and tries to improve quarterly performance by trading risky equities in the short term.
- Poor performance after two to three years of full positioning. Throughout a full business cycle of expansion and recession, the manager is unable to even out performance for an overall positive outcome.

As a rule, the individuals charged with monitoring the investment manager give a warning of non-performance and try to work out any difficulties, particularly if the relationship has been satisfactory. Typically, termination occurs in the following steps:

- **Step One.** Warn the manager in a face-to-face discussion.
- **Step Two.** Withdraw a portion of foundation assets if problems have not been corrected by the end of a year.
- **Step Three.** Withdraw another portion of assets at the end of the second year if performance continues to drag or style drift is clear.
- **Step Four.** Withdraw all remaining funds.

Although it may seem that this process is somewhat drawn out, in many cases it is preferable to immediate withdrawal of all funds. In making termination decisions, a foundation must weigh the cost of moving a portfolio against transaction costs that would be incurred in correcting the unsatisfactory equity positions.

Determining the **Family's Role**

Because you have set up your foundation as a family foundation, you and your board may want to consider issues with implications for individual family members. Which family members show interest in serving on the investment committee? Must they be board members to do so? Which bring special knowledge or skills to the work at hand? To what extent should branches of the family, or generations, be represented? Also important, of course, are the personalities and interpersonal skills of family members who are called upon to serve in a group environment.

Family members who are selected to serve on the investment committee must be prepared to spend additional time on foundation-related activities. Determining who serves on the investment committee can be a difficult task. Traditionally, these committees have been made up of the founder and those trustees with the most experience in this area. Because all members of the board are considered fiduciaries of the foundation, however, it is important that each current and future trustee has a general understanding of investment activities.

Family foundations employ a wide variety of methods to teach younger and/or less-experienced family members about financial stewardship. Common practices — both informal and more structured — include:

- Placing next-generation and less-experienced trustees on the investment committee with more experienced board members/advisors;
- Spending a day with foundation money managers at their offices;
- Requiring money managers to conduct a 2 to 4-hour instructional seminars for new/future board members;
- Making occasional educational seminars part of the investment counselor's job description;
- Incorporating at least one learning segment related to finances at every board meeting;
- Developing a formal orientation-training program of from 1 to 3 days for next-generation

members (a significant portion of which covers financial management);
- Sending trustees to professional conferences, seminars, and workshops on investment-related topics; and
- Establishing a separate Next Generation Advisory Board that includes a small fund to manage and a requirement that the advisory board report on its activities at every full board meeting.

SOURCE: Lester A. Picker. "Training the Next Generation," Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Dollars.

Reviewing Disqualified Persons Requirements

Family members sometimes find themselves playing a direct role in managing one or more of the asset classes or individual funds in the foundation's portfolio. This practice may be illegal under certain circumstances. It is very important, therefore, that you and the rest of the board be familiar with self-dealing rules. Situations to keep a close eye on include:

- **Compensating investment managers who are disqualified persons.** All family members are disqualified persons. The general rule here is that, while technically not self-dealing, the amount of the compensation must be reasonable, where reasonable means that a similar organization would pay such an amount for similar services under similar circumstances.
- **Compensating property managers who are disqualified persons.** This act is defined by the IRS as self-dealing and is, therefore, not permissible.
- **Lending money or extending credit to a disqualified person.** This act is defined as self-dealing and is not permissible.
- **Benefiting from joint investments.** Disqualified persons are generally not allowed to make personal investments in the same investment partnership.

For more information about the self-dealing rules, consult with legal counsel or refer to resources listed in the Appendices. You may also wish to develop a conflict-of-interest statement to make clear the limitations on board member's interaction with the foundation. (See the chapter on legal issues.)

Considering the Role of Future Generations

At some point, you and your board will need to determine how the next generation will be involved in managing the foundation's investments. Common questions that families face in this area include:

- Should the next generation have the option of changing the existing spending policy?
- How can we best prepare the next generation to manage the investments of the foundation?
- What guidelines can we provide the next generation with regard to the investments of the foundation?

Developing these guidelines can be an important and potentially time-consuming task.

FIGURE 8: Roadblocks and Bumps in the Road

Family foundation boards may experience challenging situations while overseeing the investments of the foundation, including:

- **Family members as paid investment managers:** Prudent boards will be wary of arrangements in which a family member is paid to manage the investments of the foundation. Reviewing the performance of a family member is not always easy, and trying to remove a family member as manager can be even more difficult. Combined with the need to ensure that the compensation arrangement is within the self-dealing rules, this practice may not be one that you will want to tangle with.
- **Liquidity considerations:** Foundations have annual payout responsibilities and, in most cases, ongoing operations costs. As such, you need to ensure that an adequate amount is kept in cash or some other easily converted investment type for annual (or more frequent) grant payments and other expenses.
- **Over-management of the endowment:** Just as individual investors do, foundation boards have a tendency to over-manage their investments — buying and selling new funds, changing advisors, and even changing investment styles regularly. Because of the high cost of these transactions, and because foundations usually invest for the very long-term, it is important that the board resist these temptation and, whenever possible, stick to a predetermined strategy through the inevitable ups and downs of the markets.
- **Time lags between meetings:** At the same time, cases arise where individual stocks or classes of stocks experience rapid shifts in price, and action may be needed either to rebalance the portfolio or take other more radical action. Because many foundation boards do not meet more than one or two times per year, it is important to have some system in place to account for these situations — this could be as simple as giving one or more of the trustees discretion to make these decisions.
- **Disparity of interests and abilities:** All board members — regardless of their investment background and experience — need to understand the strategy and decisions made with regard to the foundation's investments. This can be accomplished in a number of ways (see above for specific ideas).
- **Excise tax on net investment income:** Private foundation endowments are subject to an excise tax of at least 1 percent, and up to 2 percent, of investment returns each year. These taxes are paid on realized net gains, and a portfolio with constant turnover will likely trigger the maximum tax payments. Although it may not be possible to avoid the maximum tax in any given year, families may wish to consider working with advisors who have sensitivity in managing the portfolio in a tax-efficient manner.

Diversifying a Family Business Holding

Many family foundations are created by entrepreneurs who created and acquired wealth through successful business careers. Often, the wealth they bequeath to the foundation is in the form of shares of the company they helped to build. In fact, the foundation is often synonymous with the business, as is the case with high-profile families philanthropies like the David and Lucile Packard Foundation, Ford Foudation, and the W.K. Kellogg Foundation.

What should a foundation board do when the majority of its holdings are in a single stock with close ties to the founding family? The mandate to diversify is clear, but the process and timing may be nuanced. The founder may wish to retain an interest, and selling a large block of stock all at once it could negatively affect the company.

You do not need to diversify all at once if you create and implement a plan to diversify gradually. As with all of your investment decisions, the onus on the board is to act prudently and in good faith to protect the interest of the foundation. Fiduciary duty is judged by intention and execution, not by results. In this situation, the board should keep careful records demonstrating that it is aware of the need to diversify, has a plan to diversify, and has taken appropriate action to implement that plan.

If the foundation owns more than 20% or a business or if other family members hold significant positions in the same stock, it would be advisable to seek legal advice to make sure that the foundation is not in violation of excess business holding or self-dealing rules.

Reducing Investment Costs

Your foundation can gain a number of advantage by reducing the costs of its investments. By reducing costs, your foundation may be able to adopt a more conservative portfolio, yet still achieve the returns needed to maintain or increase purchasing power.

To manage costs, many institutional investors invest in index funds, to attain the returns historically associated with equity markets. An increasing number of institutions are also carefully reviewing the high fee structure of many hedge funds and private equity investments. Make sure you seek tax advice before investing in "alternative asset classes", which may be costly, which may be costly, and may have complex compliance requirements for overseas and closely held assets.

Families have a number of other options for limiting their investment costs. They include:

- **Mutual Funds.** Mutual funds are the vehicle of choice for many smaller foundations. Advantages include ease of implementation, moderate costs, low thresholds for investment, and a huge selection of alternatives. On the downside, mutual funds must maintain a cash reserve to meet redemptions, and returns are diminished accordingly
- **Separate Account Managers.** Many foundations hire advisors to manage separate accounts on their behalf. Advantages include the potential for lower costs and negotiated fees; direct input to and feedback from the manager; and the potential for developing a customized portfolio. Many of the better investment managers, however, have investment minimums ranging from several million to tens of millions of dollars. Thus, smaller foundations may be precluded from employing separate account managers.
- **Use of a custodian.** Smaller foundations or funds may choose to make use of existing relationships with the banks or other financial institutions that serve as their custodians. Because the foundation may already be paying the custodian for other services, it can often obtain competitive rates on investment management fees and other costs. [Caution: If you pursue this option, please note that relying on a custodial bank for investment advice can create conflicts of interest, as the bank is inclined to promote their own investment products.]
- **Community foundations.** In addition to their traditional grantmaking and administrative services for advised funds, some community foundations offer investment management services to private foundations.
- **The Investment Fund for Foundations.** The TIFF Investment Program (TIP) — a family of commingled investment funds of grantmaking foundations — is an example of a pooled fund that is open to smaller foundations. TIP employs a performance-based fee system, and in the past has maintained relatively low investment minimums.

How to **Manage the Foundation's Assets**: The Family Office Alternative

Donors and families who form family foundations are concerned about how to manage the foundation assets. Most family foundations are operated by the donor and his or her family, with perhaps a few non-family directors. If the family has a family office, many families prefer that their foundation run out of that office. From the family's viewpoint, operating a foundation through the family office is simply a matter of convenience—the procedures and operations of the family office transfer easily to the day-to-day management of family foundation activities. From the foundation's standpoint, co-location permits sharing of the space, staff, office equipment, and supplies of the family office. The arrangement occurs naturally because, in the early day of operation, most family foundations lack the staff and office space to operate independently.

In addition, managing a private foundation through a family office allows the foundation to benefit from the expertise of existing managers and consultants, including accountants who can keep books and prepare tax returns, legal counsel who are familiar with the family and its assets, and investment advisors who can help invest foundation assets.

Still, issues of self-dealing must be addressed before a private foundation co-locates with a family office. If the family office is a corporation and its stock is held by family members, the IRS will most certainly view it as a disqualified person with respect to the foundation, which may raise a problem. For instance, the foundation cannot sublease space from the family office, because a disqualified person cannot lease space to or from a foundation. Thus, the family office must furnish the space to the foundation without charge. Similarly, although the foundation can pay reasonable compensation to a disqualified person for personal services and thus can pay the family office for the use of its staff, the foundation may not reimburse the family office for the use of supplies, computers, or the photocopying machine. The foundation must buy its own supplies and equipment, or hold separate leases with outside vendors for shared equipment. In addition, the foundation should make payments for utilities directly to providers rather than reimbursing the family office for utility expenses.

Arrangements between a family foundation and a family office can be spelled out such that self-dealing rules are not violated. Although somewhat daunting at first, these arrangements can be worked out if the needs of the foundation are considered and an agreement for the use of family office services and equipment is structured to address those needs in advance of co-location. Once the mechanics have been worked out, having a family office manage the foundation can benefit both the foundation and its trustees.

Revisiting Goals and Objectives

Your foundation's spending and investment objectives and strategies may change over time.. Keep in mind that program goals, rather than the performance of individual managers or asset classes, should drive these changes. Because well thought out grantmaking and investment strategies often require that you stick with a philosophy over an extended period, it is important that you allow these strategies time to develop without making radical or frequent shifts in approach.

However, there are times when it may make sense to change your spending policy and investment objectives. Specific reasons to consider revisiting the spending policy (and associated investment strategy) include:

- **Underperformance:** Your foundation should review their overall portfolio performance at least annually. In some cases, the board may find that the investment objectives are not being achieved over a period of time. This outcome could be because the investment objectives are not realistic, or the spending policy itself is too ambitious.
- **Sustained growth in the markets and economy, or a significant influx of assets:** In some situations, the opposite is true. New gifts or bequests may significantly increase the size of your foundation's endowment. The market occasionally experiences sustained periods of growth, which may lead to significantly higher endowments than expected. In such cases, your foundation might want to consider increasing its payout rate for an indefinite period of time.
- **Interest in adding mission-related investments or program-related investments to your strategies.** The board may identify opportunities to align your investments with your mission, or a charitable purpose that the foundation may be able to support with increased giving or program-related investments.
- **Decision to sunset the foundation (i.e. spend all assets):** Whether you make this decision on your own or with the family, or whether this is a choice that will be made at some point in the future, the decision to sunset or spend out your foundation will have radical implications for how your foundation spends and invests its resources.

The **Stranahan Foundation's** PRI Story

The Stranahan Foundation's board chose to develop a PRI program, in large part because of the fact that PRIs offer a 100% return of principal (and interest, when applicable) that, once repaid, is used to support more causes and address more needs.

To govern its PRI program, the Board appointed a PRI Task Force to explore alternative structures and recommend a course of action.

The Task Force faced a number of key decisions as it rolled out its program — including whether to build the internal capacity of the Foundation to operate and manage the PRI program, or whether to outsource management of the program to an experienced intermediary.

Outsourcing would provide access to resources not currently available in house — such as identifying PRI opportunities, determining how much a charitable organization could reasonably borrow, assessing a borrower's ability to repay a loan, and offering hands on technical assistance/consulting in order to help charitable borrowers succeed in carrying out their project and repaying the loan. On the other hand, working through an intermediary would require relinquishing some control over selecting charities that would benefit from the Foundation's PRI.

Ultimately, the Task Force decided that outsourcing to an intermediary would be the most practical solution. At the same time, the Task Force was committed to ensuring that the PRI program would reflect the foundation's mission, values and grant making priorities.

With these goals in mind, the Task Force developed screening criteria for intermediary candidates. To qualify, candidates must:

- Be structured as a 501(c)3 public charity;
- Have a proven track record in administering loan pools that include PRIs;
- Provide one-on-one technical assistance and consulting to help charitable borrowers succeed;
- Serve a broad geographic area (i.e. regional, multi-state or national in scope);
- Provide financing and technical assistance to support projects that:
  (a) Serve disadvantaged populations, and
  (b) Address one or more of the Stranahan Foundation's grant priorities in the areas of education, health, human services, the arts, and/or ecological well-being.

Important note: *the above criteria reflect the goals and values of one foundation. Another foundation may have very different objectives, and therefore different criteria.*

Once the Task Force established the criteria, the foundation sent requests for proposals to a short list of possible candidates, which had been surfaced by perusing lists available on the Mission Investors Exchange website, and consulting with colleagues at foundations with long-standing PRI programs.

In reviewing the proposals and selecting finalists, the Task Force decided that, for this first foray into the world of intermediaries, it would prioritize candidates that had been rated by AERIS, an independent third party that assesses both financial strength and social impact.

The Foundation's CEO and Task Force members then conducted in-person site visits to each of three finalists (in three different cities) in order to learn more about their programs, their experience in managing loan pools and their approaches to working with and supporting nonprofit borrowers.

It ultimately chose an intermediary that had a wealth of experience in providing loans to nonprofits in multiple states, had an AERIS rating substantiating financial stability, and was committed to using the PRI to support nonprofit programs closely aligned with the Stranahan Foundation's grant priorities.

While the foundation could have chosen to receive below-market interest on the PRI, it decided not to charge interest so that all funds would be available for the intermediary to assist its nonprofit borrowers.

Throughout this process, from the early stages of learning about PRI intermediaries, to establishing selection criteria, to identifying candidates, to negotiating the PRI agreement, the Foundation drew on numerous resources for information and advice, including: Mission Related Investors Exchange; colleagues at foundations with deep PRI experience; and knowledgeable tax and legal counsel.

Program-Related Investments **Benefit Communities while Advancing Mission**

What is a Program-Related Investment (PRI)?

A PRI is a tool for providing below-market financing — in the form of loans, loan guarantees, linked deposits, lines of credit, or equity investments — to support chartable activities aligned with a foundation's mission.

PRIs have characteristics of both grants and investments. Like grants, PRIs support projects that fit with a foundation's priorities and can count toward the foundation's 5% payout requirement. Unlike grants, PRIs are repaid to the foundation. The foundation *must* redeploy the funds for new grants or PRIs the same year that repayment is received.

The Internal Revenue Service dictates that certain factors that must be present in order for a transaction to qualify as a PRI (see http://www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Program-Related-Investments).

FIGURE 9:. Checklist of Fiduciary Responsibilities

1. Does the foundation file 990-PF and related state forms? **Yes No**
2. Does the foundation publish in a local newspaper the location and availability of the 990-PF? **Yes No**
3. Do staff and board periodically disclose to the governing body the nature of any personal or family affiliations or involvement with any organization that might be considered an act of self-dealing or a conflict of interest? **Yes No**
4. Do you believe that the board fully understands its legal responsibilities? **Yes No**
5. Does the board annually approve a budget and periodically review its implementation? **Yes No**
6. Do board members understand the data presented in regular financial reports? **Yes No**
7. Does the board have members with special expertise who give advice and leadership in:
   a. Long-range fiscal planning? **Yes No**
   b. Investment practices? **Yes No**
   c. Fiscal management? **Yes No**
   d. Budget review? **Yes No**
   e. Analysis of audit reports and recommendations? **Yes No**
8. Do you feel that the board fully accepts its responsibility for prudent fiscal management? **Yes No**
9. Does the board or a board committee hold regular meetings with its investment advisors or investment staff? **Yes No**
10. Does the board get adequate and comparative information on the investment portfolio's performance? **Yes No**
11. Does the board have a policy to guide those responsible for selecting/monitoring foundation investments? **Yes No**
12. Are you generally satisfied with the performance of the foundation's investment managers? **Yes No**
13. Does the board or an appropriate board committee take direct responsibility for voting on shareholder resolutions affecting companies whose stock the foundation owns? **Yes No**
14. Does the board have a conflict-of-interest policy statement that all directors and officers are expected to execute?
    a. Should it be reviewed for substantive content? **Yes No**
    b. Was it, in fact, signed by all directors **Yes No**
15. Was there a meeting at which a director disclosed a conflict of interest regarding a decision? **Yes No**
16. If so, was there an adequate record in the minutes of that disclosure? **Yes No**
17. Was there a vote on the issue to which the director had a conflict? **Yes No**
18. If so, was there a quorum (as defined by the statute of incorporation) for such a vote? **Yes No**
19. If so, was there a vote of an adequate number of disinterested directors? **Yes No**
20. What material is distributed in advance of board meetings?
    a. Minutes of last meeting? **Yes No**
    b. Current financial statements? **Yes No**
    c. Current reports of committees? **Yes No**
    d. Summaries of decisions to be made? **Yes No**

SOURCE: Compiled from the Guidebook for Directors of Nonprofit Corporations of the American Bar Association. Republished from Appendix E. *Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Dollars.*

A Final Word: **Reviewing the Checklist**

John Craig, the retired executive vice president and treasurer of the Commonwealth Fund, offers the following list of key questions for managing a family foundation endowment:

- Does your foundation have a clear spending policy? Does that policy reflect a consensus among trustees regarding the life expectancy of your foundation?
- Has your board periodically reviewed the foundation's investment goals and risk profile?
- Does your foundation have written investment guidelines for the endowment as a whole and for individual managers? Do these guidelines include targeted allocations to named asset classes with permissible ranges for each?
- Do members of your investment committee have relevant experience for overseeing the management of the endowment?
- Are members of your investment committee fully engaged in the foundation's mission and equally attentive to its grantmaking?
- Is the allocation of your endowment among asset classes regularly monitored? Is corrective action taken when market trends cause allocations to veer beyond the targeted ranges?
- Does your investment committee report at meetings of the board of trustees on the endowment's recent and long-term performance?

SOURCE: John E. Craig, Jr. "Understanding Trustee Responsibilities and Duties," Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Dollars.

These questions provide a helpful context for the types of conversations and decisions you and your board will be making about the investment of your foundation's endowment and the role of the family in that process. You probably will not be able to answer "yes" to each of these questions. But as you review the development of your strategy, policies, and practices, consider revisiting these questions at each board meeting until you feel comfortable with your answers.

As the late John Kunstadter, president and long-time trustee of the Albert Kunstadter Family Foundation, once wrote,

> *In the end, your satisfaction and joy will come not so much from good investments, but from the grants you have made, the lives you have affected for the better, the Earth which is a little better place for your efforts. There are many roads to these goals, as many roads as there are foundations; so use your common sense, don't take up with the latest fad, keep things in perspective, and your foundation will gladden your heart as you see it accomplish your goals.* ■

PART III
CREATING YOUR PROCESSES

EFFECTIVE GRANTMAKING: THE FULFILLMENT OF YOUR MISSION

BY SUSAN CRITES PRICE

This is it—the main reason you started a foundation. Regardless of the other motivations behind starting a foundation—creating a vehicle for working together as a family, building a legacy, reducing taxes—grantmaking is likely your main goal and is the heart of your work. Families willingly jump through all the legal, financial and administrative hoops necessary to establish a foundation so they can use their resources to make a difference in the world. It can bring your family true joy.

That's not to say that grantmaking is simple. To quote Aristotle: "To give away money is an easy matter and in any man's power. But to decide to whom to give it and how large and when, and for what purpose and how, is neither in every man's power nor an easy matter."

No one is born knowing how to be a grantmaker, and, until recently, it wasn't something you could study formally. As a result, grantmakers learn by doing. This process, however, can test your patience. For founders who are entrepreneurs, it can be frustrating to make grants and have to wait a long time to see results—or maybe not see results at all. Most grantmakers go through times of impatience with all that they need to master. Don't worry if this happens to you. In fact, it is important to embrace the idea of trial and error with your grantmaking. With each grant, you'll have the opportunity to learn something new — regardless of its result. In time, you'll come to enjoy it.

In fact, there are definite rewards for your efforts. As you go through the process of making grants, you will meet amazing people—nonprofit and community leaders, volunteers, advocates, researchers, experts, other philanthropists and the recipients of the programs you support. You'll have the satisfaction of seeing situations improve through the intervention of programs you fund. Ideally, you'll have positive experiences working together as a family to make a difference and leave a legacy.

However, building a legacy takes time. Many family foundations start out as a continuation of the founders' personal philanthropy by making grants to their favorite nonprofits. But as time goes on, foundation boards typically take a more focused, strategic approach to grantmaking. This is especially true when there is an influx of assets (what the lawyers call "a liquidity event"). With more money to give, family foundations have more decisions to make about which groups to fund, what types of grants to make, and perhaps the most important question: how they can achieve the most impact.

The unique nature of family foundations adds another layer of complexity to their grantmaking. In most families, individual family members will have different interests or preferences. The founder may call all the shots initially, but as the foundation evolves, engaging the family eventually requires a more inclusive and flexible approach. Community needs change over time, too, requiring foundations to shift their grantmaking strategies to meet those changes.

The field of philanthropy is changing, too. Today's family foundations have more ways than ever to make an impact, such as new vehicles for mission related investing.

As the field evolves, more voices are weighing in on how foundations should operate. Some groups are pressing funders to put more grant money into human services rather than investing in institutions like universities or arts organizations. Federal, state and local government regularly entertain proposals that could affect foundation grantmaking. Foundation experts debate the desirability of charity—providing relief for immediate needs—versus philanthropy, which tries to address root causes. More philanthropists are weighing in on the best ways to measure their impact—or whether it's even possible to do so. Such measurement attempts can be especially frustrating when you try to address a problem, such as environmental pollution, and the outcome won't be known for decades.

In this chapter, we'll explore these issues — as well as many others — to help you build an effective and satisfying grantmaking program. As you examine these questions, it's important to remember one key word — flexibility. As your family changes and your foundation evolves, you need to make sure you build flexibility into your grantmaking plan. You'll need to revisit your plan occasionally, maybe even at set intervals, to be sure it is achieving the impact you want.

You don't need to reinvent the wheel. The National Center for Family Philanthropy's Online Knowledge Center has a huge storehouse of sample documents from other foundations, everything from mission statements to grant guidelines and agreement letters.

Go to ncfp.org to learn more.

Finding a **Focus**

As you get started with your grantmaking plan, it's important to consider a few fundamentals. First is your mission statement. Typically, your mission statement is broad enough to leave room for a variety of grantmaking focus areas. In developing your mission statement, you'll also want to consider the donor's intent, as well as if he or she died before the foundation's mission was established.

Consider the Rockefeller Foundation's mission: "to promote the well-being of humanity throughout the world." That broad mission, along with a set of core values, has guided the foundation for a century and accommodated numerous grantmaking approaches. Other foundation missions are narrower, but still leave plenty of room for the current and future generations of trustees to find focus areas—sometimes referred to as program areas—and to shift gears as the board's interests and the community's needs change. Again, flexibility is key.

If one of your foundation's goals is family engagement, then it's critical for family members to have an interest in the grant program focus areas. Otherwise, they may participate only half—heartedly or may opt out altogether. Sometimes a foundation's mission and program areas are chosen by the founder or founders. In other foundations, several family members are included in the decision from the beginning. Whichever is the case with your foundation, your success over time likely rests on whether the board can find common ground on program areas.

As the number of people involved in the foundation grows, the process of focusing your grantmaking becomes more complex. It can be especially difficult to find a grantmaking focus when family members have diverse interests or where they see multiple areas of need. Some families deal with these competing interests by proposing a dozen or so potential areas of focus, and inviting each family member to pick their top three. The top vote getters become the foundation's initial list. This process helps families home in on the values and interests they share, rather than on their differences. Some families also choose to hire an outside facilitator to lead the discussion

As you continue the process, broad program areas, such as education or the environment, can be narrowed further, for example, to a focus on early childhood education or clean water. Since it takes a while to get up to speed on program areas, you're wise to limit the number you take on. Some funders recommend no more than one or two initially.

> New foundations have two years to meet their first 5 percent payout. By limiting the number of program areas in those first years, you'll have time to delve into the issues, meet people already working in those fields, and ease into your grantmaking responsibilities.

Keep in mind that you are not locked into your initial focus areas forever. Promising research, for example, might lead the foundation in new funding directions. Still, many grantmakers recommend staying with the same program areas for at least three years. That gives you enough time to determine if the program is a good fit and allows you to notify grantseekers of changes in your future funding plans. The important thing is to stay flexible.

Personal Passions

Founders don't have to give up their personal passions as they involve the whole family in their philanthropy. When the late Gilbert and Jaylee Mead of Washington, DC, created the Mead Family Foundation in 1989, many of the initial grants went to area arts organizations, a particular passion of the founders. However, as Gil's four children were invited to join the board, the focus expanded to encompass their interests — and it ultimately shifted away from the arts. The foundation's mission statement is "To empower youth to have crisis-free lives, strong families and excellent education." To support that mission the foundation chose four program areas: crisis prevention in children and youth, K-12 education, arts education, and strengthening families. But even though their foundation chose to direct its grantmaking elsewhere, the couple chose to continue supporting the arts organizations through their personal funds rather than through the foundation.

Geographic Focus

Traditionally, newly formed family foundations would choose to fund organizations in the hometown where the founders lived or created their wealth. The geographic focus may also branch out to include the hometowns where various board members live. As the expanding family become more scattered geographically in more cities and even foreign countries, foundations must consider whether to draw new geographic lines.

A growing number of families, however, are choosing to make funding decisions based on their interests rather than where they live. Sometimes, for example, a foundation will focus primarily on the family's hometown but then provide support to organizations such as orphanages in a country from which it adopted a child. In other cases, however, they choose to focus solely on issues — a choice that is especially popular among newer foundations. According to the National Center for Family Philanthropy, only about 40 percent of foundations created since 2010 focus their giving on geography, while geography is a focus for 80 percent of foundations created before 1970.

Global philanthropy is growing among family foundations. There are special legal and tax requirements for private foundations giving to overseas organizations, so it's wise to consult legal counsel. Because of the restrictions, some foundations opt to donate through a growing number of U.S.-based intermediary organizations.

In deciding where to fund, ask these questions:

- Is your foundation more likely to achieve its grantmaking goals by keeping a narrow geographic focus?
- If the focus is too narrow, will family members living in different communities feel disconnected from the grantmaking?
- Will you risk diffusing the impact of your grants if you fund in all the places where your family members live?
- How much more work will be involved in managing and evaluating grants in a variety of places?

As with every other aspect of grantmaking, you'll have to consider the tradeoffs that come with each decision you make. It's possible that some day, no one from the family will live in the home community. If the family becomes widely dispersed, you may need to revisit the mission and guidelines.

Some families set aside an amount for discretionary grants so that geographically dispersed family members can support organizations where they reside without eroding the main focus of the foundation's grantmaking.

Embedded Philanthropy

Sometimes, even the "hometown" can be too big. The Steans Family Foundation of Chicago quickly realized that its small foundation could have more impact by focusing on revitalizing one city neighborhood on Chicago's west side rather than trying to affect change city wide. The foundation works in partnership with local residents and institutions to revitalize the North Lawndale neighborhood. This approach of immersion in one area and working collaboratively with residents is called embedded philanthropy.

Assessing **Community Needs**

It's easy to fund organizations you already know. But as you aim to move the needle in your program areas, it's important to expand beyond your comfort zone to find organizations that can achieve the greatest possible impact with your resources. How do you find these high-impact organizations? Let's say you want to learn more about the state of early-childhood education in your region and which nonprofits are doing the most promising work—or identify areas of the work that are not being addressed at all. Sources of information include:

- Community or focus area experts
- Other area foundations that are funding similar work
- Local community foundation program staff
- Affinity groups
- Local United Ways
- Regional associations, which sometimes sponsor interest groups of funders

  (Note: Regional associations of grantmakers are membership organizations of foundations and other funders that offer a variety of programs. Find the nearest one to you at www.givingforum.org.)

As you aim to gather information, consider inviting key experts to speak at your board meeting or even join an advisory committee of your board. This is a great way for the whole board to stay up to date on new developments in a program area.

Some family foundations even recruit experts to be community ("non-family") board members.

Remember, too, that experts include the people who have been served by the nonprofits you may decide to fund. They've experienced the problems you are trying to solve and can help funders devise effective solutions.

Some experts also reside in your boardroom. "When a foundation first begins, there will be different levels of knowledge about grantmaking," said Julie Fisher Cummings, a trustee of the Max M. & Marjorie S. Fisher Foundation. "It is a great idea to have board members share their passions and knowledge with each other as well as have speakers that can enrich this learning so there will be shared learning."

Consider joining an affinity group for your funding areas. There are many national groups for funders in health, education, the environment, and the arts, just to name a few. Grantmakers for Effective Organizations (GEO) is an affinity group about grantmaking in general. GEO and many of the other affinity groups have conferences where you can hear speakers on the latest issues and meet and compare notes with other funders.

What do you have **to give**?

Payout Rate

To figure out how much money you can give in grants, you first need to determine your payout rate. Your payout rate is the percentage of your foundation's net investment assets paid out in the form of grants or eligible administrative expenses. By law, private non-operating foundations must distribute at least 5 percent annually, with certain exceptions. The rule was created to prevent foundations from receiving assets but never actually making charitable distributions with them.

The figure below illustrates some of the complexities of payout with a sample payout calculation for a fictional foundation.

DETERMINING THE MINIMUM REQUIRED PAYOUT

ITEM	AMOUNT	EXPLANATION
Foundation Assets	**$ 20,000,000**	12-month average fair market value of foundation's assets*
Cash Reserve	**– $ 300,000**	Law allows up to 1.5 percent of endowment value to be "held for charitable purposes"
	$ 19,700,000	
		Law requires a minimum 5 percent payout
Payout rate	**X .05**	
	$ 985,000	This indicates that the foundation has qualified to reduce its tax on investment income from 2% to 1% for year
Excise Tax Credit	**– $ 20,000**	
		Payout may be met through grants, administrative expenses, and other qualified distributions
Minimum Payout Requirement	**$ 965,000**	

*While there is no specified formula for how to calculate required payout, a monthly average is generally accepted as one of the most straightforward and reasonable approaches. To get the average fair market value, add up the value of the endowment on the last day of each month, and divide by 12.

The law actually doesn't define payout but something called the distributable amount. As the figure below demonstrates, the foundation calculates the 12-month average fair market value of its endowment and subtracts the value of any charitable use assets. Five percent of that number minus, for instance, an excise tax credit yields the distributable amount. This is the amount that the foundation must "pay out" in qualifying distributions (grants and certain administrative expenses) by the end of the year following the year on which the calculation is based.

There are more technicalities to calculating payouts such as "set-asides," "carryover," and significant penalties for failure to make the required distributions. It's wise to consult legal and financial advisors knowledgeable about private foundation tax law to make sure you comply.

Spending Policy

Although five percent is the *minimum*, you are free to allocate a higher percent of your assets to grantmaking. That's where your spending policy comes in. For this, you'll want to take into account your grantmaking goals. Some foundations prefer to stick with the required 5 percent per year, so they can preserve their principal and have grant funds for the long haul. Others, who want to have a greater impact while they are alive choose to spend out more, even if it means reducing their principal.

A growing number of families are also making the choice of spending down their endowments — planning to grant their resources at a rate where they deliberately exhaust their resources within a certain time period. In fact, about 1 in 5 of the youngest family foundations have chosen to operate with a limited life span, according to the National Center for Family Philanthropy's 2015 Trends report — roughly double the percentage of all family foundations that have chosen that approach.

Even with this trend, the vast majority of family foundations manage their endowments in perpetuity — meaning that they plan on having them last forever.

Many of these groups enjoy investment returns well above the 5 percent requirement during good economic times and are able to pay out a higher percentage. Economic downturns, however, cause varied reactions. Some foundations opt to reduce their payout to preserve principal. Others choose to dip into their principal and increase their payout to help grantees who have been hurt by the tough economy. This shouldn't be just a financial calculation. Families should ask themselves how mission affects the payout decision. You may, for example, decide that it's more important to preserve funding to the organizations you care about than maintaining the foundation's endowment. And since economic ups and downs are inevitable, it's smart to discuss in advance how you'll react when those shifts happen. (See finance chapter for more information on creating your spending policy.)

Creating a grant budget

Typically, foundations divide their budgets by program area, by communities where board members live, or by geographic regions. Your family may choose to divide the funds equally among all areas, designate a larger share for an area that has a special interest to the family, or let the quality of the proposals dictate the size of the grants.

Some families prefer strict rules for dividing the grants budget; others prefer more flexibility. That latter approach works if your board gets along well and knows how to compromise. But some families have members who are competitive or concerned that one family member or branch is getting a larger share of the grantmaking pie. Often, arguments over how to divide the budget aren't so much about the grant allocations as about rivalries between individuals, generations or branches.

You'll also need to set aside a portion for discretionary grants if you have decided to include them in your budget. Discretionary grants, while valuable, should be properly defined and governed. Otherwise they can lead to individual instead of collective grantmaking, thus removing your ability to achieve the foundation's mission and program goals.

A **Merit-Based Approach** to Grant Budgets

The Max M. & Marjorie S. Fisher Foundation in Detroit, Mich., worked for several years to develop a grants budget that supported its mission. The foundation was endowed after Mr. Fisher's death in 2005. The board included five second-generation siblings and their mother, Marjorie Fisher, who took the role of chair. As the group worked through crafting its mission, the topic of how to allocate between four distinct impact areas took center stage. Mrs. Fisher would often share with the board her deeply held belief that they needed to stay true to their core mission—strengthening and empowering children and families in need—and at the same time remain flexible in their approach to each of the specific impact areas they had chosen. After thinking through the various options, the board decided to allocate resources based on the **merit** of the individual proposals and their alignment with agreed upon definitions of success, as opposed to creating a grant budget by percentages. To balance this approach, the foundation created what it calls a strategic grant horizon report to track aggregate totals in each impact area so the board could monitor the balance of grants and its intentions over time.

Other Resources Besides Money

Your foundation is more than just money — and you should consider how you can share other resources with your grantees to help them achieve their missions. Perhaps you have a conference room you can let grantees use for free. Some foundations turn over excess office space to small nonprofits so they can save on rent. Others provide low-interest loans to nonprofits through program-related investments (PRIs). Your foundation may also be ideally suited to bring together grantees or funders—or both—who are working on different aspects of the same issue but who don't know each other. In this way they can share resources and best practices.

Bringing Together Stakeholders

Your name has value. If your foundation invites people to a meeting, they'll likely come. That's what the Irene E. and George A. Davis Foundation, in Springfield, Mass., banked on when it invited stakeholders to a series of meetings to discuss how the community could improve the quality of its early-childhood education programs. The childhood poverty rate in its community was one of the highest in the country, yet there was no blueprint for identifying education issues for children from birth to age 5 and addressing them. The foundation hired a consultant to design and facilitate the meetings. Educators, pre-school providers, health providers, government officials, parents, and many more—were invited to participate. The outcome was a blueprint that now serves as an action plan for the whole community.

Pros and Cons of Discretionary Grants

Some families augment their mission-based grantmaking by giving designated individuals that opportunity to direct gifts from the foundation to nonprofit organizations with the full board approving the grant by consent. These grants — called discretionary grants — are often made available to board members, and sometimes the CEO. Some foundations extend the privilege to others — including family members and professional staff.

Proponents say that discretionary grants are useful tools to:

- Engage family members in the foundation's work when they no longer live in the community it serves;
- Keep board members' personal passions from taking up time on the board's grantmaking agenda;
- Help trustees with wide ideological differences get along better and keep their focus on the core grantmaking on which they can agree;
- Train future trustees in the grantmaking process;
- Respond quickly in times of natural disasters or other emergencies.

But while discretionary grants carry a number of benefits, they can prove troublesome for some families. Critics say that allowing individuals to designate grants turns the foundation's assets into several personal piggybanks and discourages collective and strategic grantmaking. They also contend that these grants:

- Prevent the board from focusing on shared goals;
- Earn less scrutiny for effectiveness and impact compared with other grants;
- Confuse grantees if the grants are made outside the foundation's mission;
- Can open the foundation to legal difficulties around self-dealing if not handled carefully;
- Can become a source of strife as families expand and more people want to participate.

Because of these concerns, some family foundations are not properly equipped to manage a discretionary grantmaking program, according to Alice Buhl, senior consultant to Lansberg, Gersick and Associates and Senior Fellow at the National Center. Buhl, who has worked with countless family foundations, recommends discretionary grants for some family foundations and not others.

"Discretionary grants can be a really good safety valve. They can help families stick to their focus," by allowing individual board members' interests to be handled another way, Buhl said. "But they should be modest. If they take up a big piece of the budget, then you are not focusing your resources on what you said you wanted to be doing — grantmaking together as a family."

Even though discretionary grants typically don't go through the foundation's regular review process, the full board is still legally responsible for approving all discretionary grants made by individual trustees. As a result, it's crucial to have a written policy that is well understood by all trustees. Sometimes preliminary approval of such grants is delegated to one trustee, such as the board chair, or a trusted staff member, so that the grant can be made and ratified later by consent at the full board's next meeting. The person entrusted with this responsibility makes sure the grant complies with the foundation's policy, that the designated nonprofit is a 501(c)3 organization, and that there is no self-dealing associated with the grant. And since your 990PF tax form lists your foundation's grants, you may want to list the discretionary grants separately and note the purpose. This avoids confusing grantseekers if some of these grants fall outside your guidelines.

What is your **"style"** of funding?

Grantmaking families come to this work with preferences and inclinations that will affect their decisions. It's helpful to examine those traits—sometimes called your "style" of funding, before settling on an overall grantmaking strategy. To help you identify these traits, ask your family these questions:

- Are you risk tolerant or risk averse?
- Do you prefer giving large grants or small ones?
- Do you favor multi-year or shorter term grants?
- Prefer solicited or unsolicited proposals?
- Prefer specific types of grants, for example program grants as opposed to operating grants?

In this section, we'll explore some of your options.

Are You Risk Tolerant or Risk Averse?

As your family foundation grows and as your family gains experience, it's more likely to add riskier grants to its portfolio. Early on, you may not be as comfortable with risky grants, such as funding a start-up or a new program in an existing organization with an innovative idea that has a big potential reward but might fail. If you are just getting started with your foundation, it's important for your family to discuss its risk tolerance and craft your grant guidelines accordingly.

It's important to remember that there is risk in all grantmaking. Every foundation makes grants that fail. And every grant that does is a learning opportunity. But it's important to know how much risk you're willing to take — and how you plan to learn from grants that fail to deliver.

Do You Prefer Large Grants or Small Grants?

Practically speaking, making a few large grants is less work than conducting due diligence and tracking a bunch of smaller ones. That's why many new foundations choose to make a smaller number of grants as they are getting started. But while it's easier to manage a smaller pool of grantees, it's not always effective to make big grants. Sometimes, a small, carefully targeted grant can have a big impact, and a large, ill-conceived grant can make little or no difference. There is no one right answer. Ask yourself which is more likely to help you achieve your current goals. And revisit that decision at some point in the future.

Do You Favor Long-Term or Short-Term Grants?

One-year grants are the most common, but many funders also choose to make multi-year grants to provide longer-term support to programs that can't be completed in one year. One approach is not necessarily better than the other. What matters is that the length of the grant fits the goals of the project or program it supports. Sometimes, grantmakers stop funding a project before it has time to take hold. One year may be enough to start a program but not enough to stabilize it. Three years may be reasonable for some programs but a very ambitious one may need five to stabilize.

Short-Term vs. Multi-Year Grants

Some reasons why family foundations may prefer short-term grants include:

- They don't want to commit money to a project before they know how it is progressing.
- They may not have enough money to fund new proposals or meet emergency community needs if their money is already tied up in long-term grants.
- They worry that multi-year grants breed dependency.
- Fewer long-term commitments make it easier for a foundation to weather an economic downturn. If you commit large portions of your grant budget far in advance, you'll have limited funds left to help other grantees who need help in tough times.

Some family foundations prefer multi-year grants. Such grants:

- Give new projects more time to get up and running.
- Recognize that complicated projects need more time to develop.
- Ease grantmakers' workload by reducing the number of grants they have to renew each cycle.
- Allow the foundation to build a portfolio of grantees addressing its mission.
- Give grantseekers a break from having to write as many proposals.
- Allow grantees to make important organizational decisions with more than a one-year time frame.

The Need for **Patience**

Grantmaking often requires more patience and flexibility than you might imagine. Changing the world, or at least having a small impact on it, takes time. Even family foundations as well-endowed as the Gates Foundation have learned that through experience. In fall 2014, when the foundation celebrated the 10th anniversary of its signature global health research initiative, *The Seattle Times* reported in December 2014 that despite an investment of $1 billion, "none of the projects funded under The Gates Foundation's 'Grand Challenges' banner has yet made a significant contribution to saving lives and improving health in the developing world." The paper reported that Bill Gates told a Seattle audience of 1,000: "I was pretty naive about how long that process would take."

He said he knew five years in that it would take another decade for some of the most promising projects to bear fruit. Still, there have been accomplishments, particularly drawing more top scientists into the global health field and new understanding or tools that can have an impact down the road.

Do You Prefer **Solicited** or **Unsolicited Proposals?**

The majority of foundations accept uninvited proposals from grantseekers. But some choose instead to solicit proposals, either by contacting organizations they want to work with or by issuing a Request for Proposals (RFP) from organizations working on a particular problem the board has decided to address. This helps the board members stay focused on the mission and keeps them from having to deal with a pile of misdirected proposals.

Controlling the volume of proposals really helps foundations that are new and/or unstaffed, and leaves you more time to learn about your program areas. The downside is that you might miss out on an excellent program. It also makes it harder for grantseekers, because it reduces the pool of funds for which they can apply. A policy of accepting only solicited approvals also favors organizations that are well known by funders, and hurts smaller or less sophisticated nonprofits that don't have a high profile.

> Some foundations stick with solicited proposals when they begin but, after they become more knowledgeable about their focus area, set aside a portion of their funds for unsolicited proposals.

How to How to Handle the **Cocktail Party 'Ask'**

Although you've probably been on the receiving end of countless requests for personal donations, once you have a foundation, you become a much bigger target. So do the other members of your family, regardless of whether they are on the foundation board.

Make it a rule that if you are asked by anyone—whether it's a close personal friend or someone you just met—about the possibility of a foundation grant, your answer is that "all requests must be submitted through the application process, and the foundation board decides collectively." If you don't make any promises, you give grantseekers a level playing field for consideration.

People who know you have a foundation may think of it as your personal piggy bank. Indeed, there are some founders and trustees who treat it that way. But it's important to remember that once you create a foundation, it is a public trust to be run by a board and its resources are no longer yours. You now have legal requirements including due diligence in making grants. If your foundation provides trustees with discretionary grants, those can be another way to fund a favorite nonprofit, with board approval. Of course there's no reason why you can't write a personal check to any nonprofit you'd like to support.

One other caution: It is illegal for a foundation to pay a board member's personal pledge because that is considered self-dealing. If you make a pledge to your alma mater, for example, in your own name, the foundation can't write the check because that would be a benefit to you. If you want to make the donation using your foundation discretionary funds, put the name of the foundation on the pledge form. (For more information on self-dealing see Legal chapter.)

Types of Grants

Grants come in a number of different forms, which offers your foundation considerable flexibility as it works to make an impact with its grantmaking. Depending on your goals, you may decide to focus on only one or two, or offer a mix. To decide which types of grants you want to offer, start by asking **"What do I want to accomplish?"** You can then choose which types of grants are most effective in meeting your goals.

Choices include:

- **General Support** (sometimes called unrestricted or operating support) for operating expenses and overhead.
- **Program/Project** grants support a grantee's programmatic activities to achieve a specific outcome.
- **Capital** (to construct a building, or purchase land, equipment or a facility)
- **Research** and planning grants (often given to universities, medical institutions, or think tanks).
- **Start up** (also called seed grants, to fund a new program or organization)
- **Scholarships** (foundations often provide scholarship money to educational institutions, but the IRS rules strictly regulate these kinds of grants so that the foundation isn't choosing the individuals to receive the awards).
- **Capacity Building** (e.g. to support the organization's internal infrastructure, such as a technology improvements or technical assistance to staff).
- **Endowment** (to create or enlarge an organization's own endowment to help it be more financially stable. The organization may use the interest generated by the endowment for operations, but may not dip into the principle.)
- **Challenge or Matching** (to encourage others to give. The match can be one-for-one or a different ratio.)
- **Emergency** (for immediate relief, such in cases of disasters).
- **Advocacy** (to press for policy changes to solve a problem).
- **Collaborative** (joining forces—and money—with other foundations to fund a particular project).

Project vs. Operating Support

Many foundations focus their grantmaking around specific projects that support their mission. Often, funders are attracted to project-based grants because they are easier to define and evaluate.

But many nonprofits lament the fact that foundations don't focus more of their grant making on funding operating support. Foundations that make grants for operating support say this funding helps organizations achieve or maintain financial stability, ensures projects can continue, and allows grantseekers to be honest about what they need instead of creating projects they think foundations will fund.

Some project-based funders recognize that projects can't get done if organizations can't cover their overhead costs. For that reason, some funders tack a small percentage, say 10 to 20 percent, on to each project to cover operating expenses. Some funders who are uncomfortable about giving unrestricted grants pick specific items in the organization's operating budget to fund, such as a portion of a staff position, computer training, and the like.

Your foundation does not have to make this an either-or choice. It can choose to provide a mix of grant types that align with its mission and goals.

Advocacy Grants

The word "advocacy" raises a red flag for some foundations. Because of the IRS rules prohibiting political activity, some foundations think they have to steer away from funding advocacy work. But it is perfectly legal for foundations to support advocacy programs, as long as they follow federal rules.

For some foundations, advocacy grants can make a big impact. For example, the Brindle Foundation in New Mexico began making long-term investments in its state's premier anti-poverty advocacy organization, New Mexico Voices for Children, with the idea that advocacy was crucial in advancing its early-childhood initiatives. With support from Brindle and other grantmakers, NM Voices helped dramatically expand access to the State Children's Health Insurance Program (SCHIP), and raise eligibility levels for child care subsidies, ensuring that 22,000 children and parents just above the poverty level would have decent, affordable health care and child care. The SCHIP expansion alone increased federal and state health care investments by $800 million over five years and greatly increased business activity and jobs in the state.

When consulting your attorneys about advocacy grants, ask what you can do, not what you can't do. To learn more, you can take a free, one-hour online tutorial on the legalities of advocacy grantmaking at www.learnfoundationlaw.org, a site funded by the Gates, Packard, Moore and Hewlett foundations. The site also includes a wealth of other information about legal issues around grantmaking.

Legacy Grants and Naming Opportunities

You may be approached for a capital or endowment campaign gift that comes with the opportunity to put the foundation's name on a building, a room, or some other part of a project. Sometimes the request isn't a building but a new program, such as an institute within a university. Some grantseekers find this an effective way to solicit large gifts, and they also appreciate the chance to leverage the name of one family foundation to show others, in a very public way, who their major supporters are. For families, it's a chance to carry on their philanthropic legacy while helping organizations they believe in.

However, legacy grants can sometimes cause problems for families—and grantees — if they aren't explicit about the long-term consequences of these grants. Some families have found themselves in situations where the recipient organization expects the foundation will continue to fund them far into the future, something that subsequent generations, or even the current one, may not want to do. Conversely, some donors have assumed that having their name on a building means they can be involved in a grantees' operation to the point of interfering in the CEO's and board's leadership. And some families find that, years later, the institution wants to tear down a building or disband an institute that bears the family's name. Because of the unique nature of these grants, it's wise to get a detailed pledge agreement with an organization spelling out what the naming rights entail. Some agreements now specify how long the name will be retained. Some agreements also give families first right of refusal if they want to extend past the expiration date with an additional gift.

What's In a **Name?**

When Lincoln Center decided to launch a fundraising campaign to pay for a major upgrade to Avery Fisher Hall, home of the New York Philharmonic, it faced a unique decision related to its naming rights.

While Fisher gave $10 million to the organization in 1973 to secure naming rights for the facility, the Lincoln Center leadership believed that the upgrade offered an opportunity to secure a much larger naming-rights gift.

To make that happen, it agreed to pay the Fisher family $15 million ($5 million more than it originally pledged). The gamble paid off when Hollywood Mogul David Geffen gave $100 million to secure naming rights to the facility in perpetuity. Meanwhile, Mr. Fisher will be acknowledged in the renovated concert hall's new lobby.

The Process: From Receipt of Grant Applications to Sending Checks

Once you've made the major decisions about mission, focus areas, types of grants and your grant budget, the last step is to settle on a process for gathering proposals and deciding among them.

As you begin this process, it's important to focus on two basic questions:

- How will you attract the proposals you want?
- What information do you need from grantseekers?

Letters of Inquiry

To avoid having to sift through a lot of proposals that miss the mark, some foundations require grantseekers to first submit a Letter of Inquiry (LOI)—a short summary of the project (typically one to two typed pages or a series of short answers to an online questionnaire). An LOI saves grantseekers time too, since they avoid having to prepare a full proposal for a funder who isn't interested. The downside is that a grantseeker may have trouble making a compelling case for the project in such a limited space.

Clear Guidelines Are Critical

One way to ensure you're attracting the right type of proposals is to create a set of clear, written grant guidelines. While this process requires some work up front, it will save you a lot of effort in the long run. By publicizing your goals and sharing information about what you fund and how you fund it, you'll help nonprofits decide whether they fit your requirements before they submit a proposal. It will also cut down on the number of proposals you receive that have no chance of earning funding. This will save your foundation time — and it will help resource-strapped nonprofits target their grant-writing efforts to foundations that are most likely to be receptive to their proposals.

Note, however, that your guidelines will reduce but not eliminate misdirected applications. Inexperienced grantseekers may fail to read the guidelines carefully. Others will read them and try to persuade you their proposals fit your guidelines even when they don't.

Your written guidelines will also serve as a checklist for screening and evaluating proposals that are the best matches for your foundation. And they provide objective criteria for rejecting proposals that don't meet your requirements.

Grantseekers benefit from knowing your foundation's mission and history and the kinds of projects you fund. Grant guidelines typically describe how to apply for a grant and the deadlines for your funding cycle, the range and size of your typical grants, and the length of grants, e.g. one-time only or multiple years. You also may opt to limit the frequency of proposal submissions from a grantseeker to no more often than every other year.

Guidelines that **Attract the Right Grantees**

- Use plain, direct language and avoid jargon, trendy terms, and abbreviations known only to insiders.
- Underscore your grantmaking philosophy and goals with statements such as "We give top priority to programs that…" or "We prefer to support organizations that…"
- Include a list of your most recent grants as examples.
- List the types of organizations, programs, and program areas that you will not consider.

Some regional associations of grantmakers have developed a common application form that local grantmakers can use or adapt. A standard form that can be used for multiple grant applications saves time and effort for grantseekers' already stretched staffs. It also means you receive their information in the same format so you can easily compare proposals. To locate your nearest regional association, go to www.giving-forum.org.

Respect for Grantees

There is an inevitable power imbalance in grantmaking. Nonprofits can only address societal needs if they have the necessary financial backing of donors. You write the checks, but it is your grantees who do the work to realize your vision. Both sides have a part to play in what should be thought of as a partnership.

One way to show respect for grantees is to listen to them. Be humble and be kind. You may think you know what they need funds for, but don't assume. Ask them. Frank conversations with grantees may be difficult since you hold the purse strings and they don't want to jeopardize their funding. But an open approach in which they feel you truly want to hear their views and consider them as your partners will lead to more effective grantmaking.

You can also seek their input on the mechanics of your grantmaking process. Some foundations conduct periodic grantee perception surveys to find out if their guidelines are clear and their application processes are reasonable. Foundations should send these surveys to all grant applicants, not just those that receive grants. By doing so, they may discover, for example, that they place unnecessary paperwork burdens on nonprofits, take too long to respond, or fail to keep potential grantees informed of their status.

If you do create a survey, you'll receive more honest feedback if you keep the responses anonymous. You can create a simple one using free online survey tools and send it to all applicants in a given year. Nonprofits will appreciate your concern for their needs, and you may find ways to streamline your process to make it easier on you as well as on them.

Consider, too, the size of your grants, and keep your requests of the nonprofits proportional. For example, you might request an interim report midway through the term of a $100,000 grant, but wouldn't want to ask that of an organization that only received $5,000.

Project Streamline—a collaborative initiative of the Grants Management Network and major funders—helps grantmakers get the information they need while reducing the burden of application and reporting practices on grantseekers. Download the publication *Drowning in Paperwork, Distracted from Purpose* and several other resources at www.gmnetwork.org.

Common Grant **Application Requirements**

Foundations typically ask for at least some of these pieces of information in their grant applications:

- One-page cover letter, including a brief description of the project, amount requested and the name of a contact person;
- Proposal narrative (sometimes with a maximum number of pages specified), including such items as an executive summary, a statement of the problem the project is addressing, the total budget, how the project will evaluated, etc.;
- Copies of the most recent tax-exemption letter indicating 501(3)c status;
- Current list of board members and their affiliations;
- List of staff leading the project and their qualifications;
- Financial information, such as most recent audit, organizational budget, etc.;
- Supplemental materials such as annual reports, videos, published articles, etc. (If you don't wish to receive these materials, say so.)

Transparency on the Web: It's a Good Thing

Many foundations have websites on which they post their grant guidelines. Others avoid this, fearing that by being so public, they'll be inundated with grant requests. What they may not realize is that nonprofits can find funders anyway through the databases that compile foundation tax filings (990PFs), and post them on the Internet. The Foundation Center's database, widely used by grantseekers, makes this information searchable by criteria such as location, kinds of grants, etc.

On your own site, you can be specific about what kinds of grants you prefer, what kinds you don't make, and what process grantseekers should use. Grantmakers who are transparent can greatly decrease the number of unwanted proposals. It's also wise to publish a list of the grants you've awarded. This can be a valuable resource for grantseekers to learn how you translate your guidelines into practice.

The Foundation Center, through its Foundation Web Builder service, has built and hosts more than 200 foundation websites—many of them for family foundations. Some sites are as simple as a single page, while others are quite robust and rich with content. Web Builder offers an array of tools — many of them at no cost. To learn more, visit: http://foundationcenter.org/grantmakers/webbuilder. The Foundation Center also has created a resource called Glass Pockets with a tool kit to help foundations improve their overall transparency. Find it at glasspockets.org.

Accepting Applications Online

Allowing grantseekers to apply for funding online is a convenience most of them welcome. After all, web-based grant applications are much less cumbersome and costly than old-school methods that require grant seekers to prepare and ship hard copies of their proposals and then worry about how soon—or if—they will get to you. With most online forms, the recipient gets a receipt notice immediately. Online applications also make it easy for grant seekers to attach supporting materials such as financial statements and project budgets.

See the end of this chapter for information on software programs the make it easy to accept online proposals and track your grants. And be sure to try out your form so you know whether it is easy to use. Some online forms are so unwieldy that they cause nightmares for nonprofit applicants, especially small ones that don't have lots of in-house tech savvy.

Once the Proposals are In: **Final Steps in the Process**

Now that you've decided on the kinds of grants you want to make and have developed guidelines and processes for grant seekers to apply, there are still a few tasks to complete before you actually write checks. They include:

- setting funding cycles;
- screening proposals;
- arranging site visits;
- preparing a board docket;
- deciding which proposals to fund.

Setting Funding Cycles

Funding cycles vary widely. Some foundations make grants quarterly, others once or twice a year, and others accept applications on a rolling schedule. The frequency depends on your board members' schedules and how much effort is required to bring them together. If, for example, your family is spread across the country or if the younger generation has full-time careers and young children, you may choose to hold annual, in-person meetings and meet by conference call the rest of the year. Whichever funding schedule you choose, you'll want to map out a timetable for all the steps in your grantmaking process far in advance to alert board members of important dates.

Timetable for Grant Cycle

- Letter of Inquiry deadline (if you've decided to request LOIs)
- Grant application deadline
- Acknowledgement of receipt of proposal (may be automatic if you use online applications; otherwise, mail one)
- Initial screening meeting
- Notify applicants of the status of proposal
- Complete site visits
- Prepare docket of grants for consideration
- Allocations meeting
- Notify applicants of final decision
- Mail checks
- Receive reports from grantees (such as one month after conclusion of the grant)

Screening Proposals

One thing is certain in your grant-seeking process: you will get more proposals than you can fund. It's wise to have at least two people—trustees or staff—read and discuss the proposals to give all of them a fair hearing. To help the process, your initial screening procedure might include these steps:

- Develop a checklist of criteria to use both for the initial screen and again in the formal review process to help board members focus their thoughts. (see Possible Criteria for Screening Applicants).
- After reading each proposal, put it in one of three stacks: interesting, questionable, or outside the guidelines.
- To learn more about the "questionable" proposals, you might ask more questions of the applicant or contact colleagues who are familiar with the organization and its programs.
- Decide how many proposals you can reasonably fund. If that number is about 10, for example, go through your stack again and choose the 15 or so strongest proposals for final review, knowing that a few won't make the final cut.

Nonprofits whose proposals will not go forward should be notified promptly so they can adjust their fundraising efforts.

Possible Criteria for Screening Applicants

- The purpose of the proposal and its compatibility with the foundation's mission;
- The mission and history of the applicant;
- The community needs served;
- The amount of the grant request and what share other grantmakers are funding;
- Plans to sustain the effort in the future;
- Desired outcomes and how they will be measured;
- The strength of the organization's leadership—staff and board.

Site Visits

While you may learn a lot from reading proposals, having phone conversations with grantseekers' staff and doing background work, there is nothing like getting to know the staff and the work of the organization firsthand. Some board members say site visits are the most rewarding part of their board work. That's why many family foundations often include site visits as a part of the grant application process. Here are other reasons to use site visits:

- To see the neighborhood in which the organization is located;
- To observe programs in action and speak with clients served by the organization;
- To better understand how you can best help the organization, and to broaden your understanding of issue areas you fund;
- To build relationships with grantseekers and to shape thinking about future grants;
- To evaluate how well a grant already awarded is accomplishing the foundation's goals.

Many philanthropic families also find that site visits can be a terrific way to illustrate the importance of the family philanthropy's work, both for board members and for other family members not on the board. If your family and/or your grant making are dispersed geographically, site visits provide a way for individual family members in each of those communities to play an important, hands-on role in the foundation's work regardless of whether they serve on the board.

Best of all may be the opportunity site visits provide for family members with young children. Such visits can help them pass on the charitable impulse. Young board members often say the site visits they went on when they were younger were the best training ground they could have had for the foundation's work.

One challenge with site visits is the natural tendency for a nonprofit to want to present itself in the best light possible. Encourage the staff to be honest and tell you what they really need, not what they think you want to hear. Ask what's working, what's not working, and what has the greatest potential. Then really listen.

Some foundations find it works best to have at least two people go on a visit. But that may not be practical for your foundation. Regardless of who goes, care must be taken to produce an objective report for the board. It's helpful to use a site visit checklist to organize the information.

Sample Site Visit Report Form

Who from the foundation visited:

Date of visit:

Organization:

Amount requested:

Purpose of the request:

1. Is there adequate talent in the leadership (board and staff) to make the program/organization a success?
2. Is there a probability of sustained change from our involvement, either within the organization or in the social problem being addressed?
3. Will our involvement (financial or other) help the organization succeed in gathering additional commitments from others?
4. Is there a better way to help apart from the request as it stands?
5. Does this further our goals (e.g. increasing community-wide and neighborhood participation in meeting social needs)?

Strengths:

Weaknesses:

Recommendations (full funding, partial, none, more?):

Perceptions about the interviewees (were they knowledgeable about the program, etc.?):

Other comments (e.g. atmosphere):

Be careful what you say during site visits. If you sound too encouraging, you may raise the organization's hopes and then cause disappointment when it doesn't receive a grant. It's also good to explain to the organization's leaders that you don't make the decision; that you are there only to gather information to help the full board deliberate.

Preparing a Board Docket

The board docket — typically a compilation of grant proposals, supplemental materials, and board or staff analysis — often elicits groans from those who have to produce one or read one.

For some groups, the docket is often an inches-thick binder sent in advance to each board member to read in preparation for the board meeting where grants will be decided. Others share it in a equally daunting digital file.

But while it might seem daunting — and even a bit boring — the docket is an important piece of your work. As a private foundation, you are required to exercise due diligence in your grantmaking (see the legal chapter). When you are first starting, you may want more information than less. Gradually, as you become more familiar with your funding areas, you may move to a system where there is a brief summary for each grant proposal and possibly a recommendation, either by a staff person, if you have one, or by a board member. The person who conducts a site visit, for example, could also produce a one-page summary so the family can focus on the most important information about a grant proposal.

Technology can help. Some members use laptops or tablets to access the materials during the meeting so they don't have to print anything. But the bottom line is that the board still needs to do its homework before the allocations meeting, which is a challenge for busy people. Talk together about how your board docket can best meet members' needs without sacrificing essential information to make decisions. After you've had some experience with dockets, revisit the subject again to see how else you can make it user friendly.

Critical Questions

When the Hill-Snowdon Foundation first hired professional staff to help manage its operations, the board reviewed a hefty docket and had lengthy discussions about each grant. Gradually, as the board came to rely more on the staff's expertise, it reviewed proposals in less detail and asked for more pointed write-ups. Each grant the staff recommended came with a two-page write-up that briefly stated the organization's goals, progress, and future plans plus the staff's analysis. An additional section called "Critical Questions" helped the board explore not only how the grant would affect the organization but how it furthered the foundation's overall objectives. The trustees then discussed only those grants about which they had questions or which the staff chose to highlight because of their strategic relevance.

Making the **Final Decisions**

It's easy to take a scatter shot approach to funding grants, especially early on. But if your family has done the hard work of coming up with a set of shared values and a mission, you can increase your grantmaking effectiveness by keeping those ideals in mind for all the grants you make. This is what is meant by "strategic philanthropy."

Early on, a foundation's grantmaking is likely to reflect family members' personal interests. But as it evolves and the board strives to be more strategic, decisions start to focus on which grants will have the biggest impact on the societal problems the foundation has chosen to focus on.

Your board must decide whether to award grants on the basis of a majority vote or by consensus. Since one of the goals of a family foundation is to provide a vehicle for working together, this becomes an important question. Often there will be strong feelings about particular grants, especially in multi-generational families with very different views on everything from religion to politics. Focusing on what you can agree on rather than on your differences can help.

Deciding by consensus does not mean you need 100 percent agreement. It means that board members can accept the decision even if it isn't perfect. What you want to avoid is making the meeting just about horse-trading: "I'll support your favorite project if you support mine." Instead, the board should strive to make decisions based on the merits of each proposal, the grant guidelines, and how it furthers the foundation's goals. When one board member feels strongly about a grant that others aren't enthusiastic about, they have the option of supporting the organization personally or, in some cases, through a discretionary grant.

The most important thing for family foundation board members to remember is that the money does not belong to your family. The board members are stewards of a public trust (for which you received a tax deduction), and you are now responsible for using that money to the best of your ability to help society.

Some foundations post their values and mission statements on the wall in the board room or print them at the front of every board docket just to keep them in mind as they decide on grants.

Grant **Agreements**

Many foundations require grantees to sign a grant agreement to make sure there is common understanding. This is a letter that spells out legal requirements and any expectations of the grantee. Agreements may include:

- A brief restatement of the objectives the grantee listed in the proposal;
- Whether you require a final report (or an interim report if it's a large grant);
- Your preferences regarding publicity (such as whether you'd rather the foundation's grant be anonymous);
- Encouragement for the grantee to contact you quickly if they have questions or want to clarify the objectives.

Notifying Grantseekers of Your Decisions

After you've made the decisions, the fun part is sending checks to the organizations you've decided to fund. But it's not fun to say no to the organizations you decided to turn down. A short, boilerplate rejection saves you time, but doesn't really help the grantseekers. They'd much rather have a more informative letter—or even a phone call—telling them specifically why they were not funded and whether they might improve their proposal and resubmit in a future funding cycle. It takes more time to convey a more complete answer, but it's a respectful way to deal with grantseekers who made it through your initial screening but didn't make the final cut. It also helps them prepare for effective applications for future grants.

Evaluation: How do you know if your grants are making an impact?

Assessing the impact of grants is something even large, experienced funders find challenging, especially when they are trying to address large societal problems. Newer foundations start with the basics. For a one-year grant, it's typical to require grantees to send a final report a month or two after the grant period. (Put that requirement in the grant agreement letter.) Often, a year isn't enough to assess whether a program has succeeded or failed, but you can still get a sense of whether it's moving in the right direction.

In essence, you want to know whether a grantee did what they said they would do with your money and what effect that program had on the population they serve. Some foundations keep the reporting very simple by asking for a short letter and some photos, for example. Others have board members check in with grantees by phone or in person. Most foundations, however, develop a standard report form that is either mailed or completed online. Completing these reports take staff time, so be sure your requirements are proportional to the grant. You can ask more of the grantees who received large grants without requiring the same level of detailed reporting from nonprofits who received small grants.

> Don't just stick the reports in a file. The whole point of asking for them is to learn from them. Take time at a board meeting to discuss what you can learn from them that can shape your future grantmaking.

Sample Questions for Evaluation Form

- What were your original goals and objectives? Were they achieved? Why or why not?
  (Include, if applicable number of clients served, measurable benefits, etc.)
- Are there any positive outcomes from your grant that were unforeseen?
- Did you encounter unexpected difficulties? Please explain.
- Is funding available for continuation of the program (if applicable)?
- What are the specific plans for continuing the work started/affected by this grant?
- Please attach final budget indicating where our foundation's funds fit in.
- Please attach news articles, photos or other materials about this grant (optional).
- What could we have done to make working with our foundation easier for you?

Other Ways to Have Impact

As philanthropy has evolved, some foundations aim to use all of their resources—not just their grant budgets but also their investments—for social good. In **mission-related investing**, a foundation invests its assets in ways that align with its mission and values. Some people call this a double- or triple-bottom line. This requires some change in thinking by boards that might interpret their fiduciary responsibility as solely to maximize investment returns and preserve the endowment for the future.

A number of terms are used to describe these various practices.

"Socially responsible investing," for example, typically refers to screening out companies in one's investment portfolio that are considered harmful or counter to the foundation's values. The idea is that a foundation that funds efforts to protect the environment, for example, shouldn't invest in companies that pollute. The risk is that you may have a harder time generating a market-rate financial return.

Shareholder activism is another approach. Some foundations use their positions as shareholders, through shareholder resolutions and other means, to push companies to adopt more environmentally friendly practices, for example.

Program-Related Investments are also gaining in popularity. A PRI is a loan made to a nonprofit at little or no interest, primarily to support its work and not to yield a profit for the foundation. PRIs enable families to invest in projects that would ordinarily be too financially risky to undertake as an investment such as housing or business development in low-income neighborhoods. If they do not pay back the loan it is considered a grant. Also, the overall percentage of payback is significantly higher than in the for-profit world.

F.B. Heron Foundation Investment Policy

The F.B. Heron Foundation has been a leader in mission related investing. Here is an excerpt from the foundation's investment policy. The full policy can be found on its website:

> *"The F.B. Heron Foundation exists solely to serve a public purpose—in our case, making investments that further the ability of people and communities to move out of poverty and thrive…The Heron investment policy thus reflects our intent to balance the social and financial return on all assets, and to select opportunities for deploying capital, whether as grants or as investments, so as to maximize the combination of both kinds of return within each."*

Some Philanthropy **Jargon Defined**

The longer you engage in grantmaking, the more buzz words you are likely to hear. These are some of the common ones that you may or may not be familiar with:

→ Intuitive Grantmaking

There is both art and a science to effective grantmaking. Gathering metrics and data is important but also has limitations. Kathleen Odne, Executive Director of the Dean & Margaret Lesher Foundation, describes intuitive grantmaking this way: "Intuition is a learned skill. It's the ability to trust your experience and to recognize and react to familiar patterns. It is different than guesses or hunches. It's actually a trained intelligence that's based on past experience."

→ Adaptive Philanthropy

Adaptive philanthropists strive to follow their strategic direction while remaining flexible in order to respond to changes such as uncertain economic and political situations, or new research and data.

→ Logic Model

This is a method of mapping out a strategy to show the activities and steps that you plan to take to achieve a particular outcome. Funders sometimes require it of grantseekers as a way to assess the strategy a nonprofit will use to bring about change, and also to evaluate how well the strategy worked. Some foundations have even applied the model to assess their own grantmaking.

→ Theory of Change

More complex than a logic model, a Theory of Change is a methodology used for both planning and evaluation that starts with the end goal and works backward to map the building blocks—the outcomes, conditions, etc.—needed to achieve that goal.

→ Collaborative Grantmaking

Some foundations collaborate with others to fund major projects in their communities. For newer foundations, collaborations bring a number of advantages, including networking with and learning from established grantmakers and learning about how to properly navigate the ins and outs of effective grantmaking.

→ Impact Grantmaking

Definition to come.

How to Get **More Help**

Grant software

A growing number of companies offer grant software to help grant-makers accept and review applications from nonprofits and track their grants, thus reducing the foundation's administrative burden. One way to find software to suit your needs is ask other funders what they use and what they'd recommend. Another source of information is the Consumers Guide to Grants Management Systems. It can be downloaded for free at the Technology Affinity Group's website, www.tagtech.org, or the Grants Managers Network, www.gmnetwork.org.

Consultants

Sometimes when families get stuck in their grant decision-making, or they just need someone to guide them through their first year or two of grantmaking, hiring a consultant can be a big help. This is especially true when you're looking for a neutral voice to help lead important conversations. Often, a good consultant has worked with many families so he or she has a tool box full of ways to help your foundation find fresh ways to approach your grantmaking.

Sometimes families that aren't in agreement on their grantmaking think their problems would be solved if they just had a strategic plan. They think they need a strategic planning consultant to help them develop one. This could be a logical goal, but what the family may need instead is a consultant with an understanding of family dynamics who can help the board communicate and work together in new ways to shape the foundation's grantmaking going forward. Some consultants have experience with both family systems and with strategic planning, but not all strategic planning consultants understand families, something you should probe for when you interview prospective candidates.

Sources for **Finding Consultants**

- Ask other foundations whom they have used successfully in the last few years.
- The National Center for Family Philanthropy can provides names of experienced consultants that other foundations have used successfully.
- Board members or professionals from other family foundations can provide recommendations — or in some cases fill the role of an outside expert.
- Regional associations of grantmakers often make referrals.
- The National Network of Consultants to Grantmakers (www.nncg.org) has a searchable database of its members' experience and expertise.

To learn more about employing consultants, see Managing Your Family Foundation. Also, NCFP's Knowledge Center contains several resources, including a webinar titled "How To Find and Work with a Philanthropic Consultant."

Other Resources for Grantmakers

The National Center for Family Philanthropy not only has an extensive Knowledge Center with sample documents, case studies, etc. for grantmakers, but also has regular webinars that allow you to ask live questions and participate in a forum with other grantmakers. The Knowledge Center also contains transcripts and audio files of all past webinars. ■

—This chapter incorporates earlier work by Deanne Stone

COMMUNICATING IN A CONNECTED, MEDIA-DRIVEN WORLD

BY NINA SACHDEV HOFFMANN AND VINCENT STEHLE

Introduction

Whatever purpose you may choose for your foundation — improving education, advancing science, preserving the environment, or any other mission — media and communications activities can amplify your message and accelerate philanthropic impact. In today's digitally connected world, media and communications offer powerful tools to help tell your story and raise awareness about your mission. But, as these tools have grown more varied and complex, it's become more important for family foundations to be deliberate and strategic in their use.

For most, the starting point is to create a communications strategy that will effectively convey the foundation's purpose and activities. Beyond this, foundations may also seek to bring greater attention to their grantees, through coordinated communications efforts. In addition, foundations are increasingly engaged in grantmaking to support media activities, including journalism, documentary film, and social media.

And there are a number of good reasons for you to publicize the work of your foundation—and its grantees. Family foundations use communications to:

- Expand the base of potential charitable partners (especially grantees), thus helping to find nonprofit organizations that are best suited to carrying out the foundation's mission;
- Inform the community — including other grantmakers — and generate community and

additional financial support for initiatives;
- Create a supportive environment for grantees;
- Spread the results of grantees' work to a larger audience; and
- Support media activities that advance philanthropic missions.

Rapid improvements in information technology have brought an endless array of communications capabilities to your desktop — and especially to the mobile device in your pocket. A growing number of family foundations now routinely use email, websites, social media, newsletters, and other techniques to communicate with one another, keep family and trustees up to date, and disseminate information to the public. In addition, foundations are becoming more sophisticated in media relations, publishing, and digital communications. As a result, you have access to many well-established practices and resources to help you choose the proper communications strategy. Even the smallest foundations now have the opportunity to use myriad techniques and channels to provide information, reinforce communications efforts of grantees, and support media activities.

At the same time, information resources available to grantseekers and others researching foundation activity have expanded exponentially in the past decade. The Foundation Center and its more than 450 associated research libraries, operating throughout the country and online, provide information on tens of thousands of foundations. And Guidestar, an online search service run by Philanthropic Research Inc., seeks to publish financial and program information about all charities and foundations.

The Internet is a treasure trove of information about foundations that is easily accessible to grantseekers, journalists, and so many others. As such, it is now much harder for a foundation to operate in obscurity. In fact, instead of focusing on how to remain in the shadows, foundations can and should embrace some level of transparency knowing that access to information is greater than ever before. There is no way to escape the fact that an increasingly connected, curious public wants to know how and why foundations spend their resources the way they do.

At a minimum, you have a legal obligation to provide basic financial details when your foundation receives inquiries from the public, as part of the bargain of not paying taxes. Likewise, most grantmakers recognize a basic responsibility to provide information about eligibility to prospective grant applications. But at a more strategic level, foundations now understand that they can only achieve their larger objectives if they engage in some form of communications.

This chapter explores communications from two perspectives. One, the various ways that foundations can communicate their own message in an increasingly transparent and digital environment, and second, how they can support media activities that will advance and promote their philanthropic missions. Though media has long been used a tool for social change, it is becoming increasingly more central to the work of foundations that are trying to move the needle on important issues.

This chapter addresses three subjects:

- Thinking about transparency and the family;
- Developing a communications strategy; and
- Supporting media that matters.

FIGURE 1: Ideas on Communications for the New or Small Family Foundation

- Consider how communications can facilitate your own internal operations, such as communication among trustees via email or a collaborative workspace, a "family" page on a website (likely password-protected), and communications with contractors and advisors.
- Develop a strategy for disseminating the important messages found in your mission statement, grant guidelines, and anything else you want to communicate to a larger audience: issue an announcement via social media, a press release or brochure; produce videos for YouTube or Vimeo; create a listserv for grantees; write blog posts for your website or the website of a philanthropy network interested in your work.
- Develop an annual reporting mechanism that complements your Form 990-PF, one that's right for your family foundation style. For example, you can send a PDF of the annual report to those you hope to involve or to those who request information. Many foundations are also choosing to produce annual reports exclusively on their websites.
- Talk with other founders and trustees in your community who share funding interests, and ask for ideas on how to get the word out.
- If you do not accept unsolicited proposals, say so. Many family foundations begin by funding organizations they know, while researching new ones.

Think about how communications can help your grantees add "bang to your grant dollars." Draft procedures for and standard language on how nonprofit organizations can and cannot use your foundation name and logo in their communications.

- Develop a strategy for responding to press inquiries before it's an issue.
- Consider the advantage of hiring a communications advisor as an ad hoc or retained consultant or firm. Such a professional can help you during the startup phase and be available later, as needed.

Thinking about **Privacy and the Family** in an Era of Transparency

"Transparency is, in a word, openness. A foundation that operates transparently provides information in an open, accessible, and timely manner."

— GlassPockets

At the outset, it's important to acknowledge the common urge to operate anonymously. There are several good reasons why donors might seek to operate foundations in anonymity. Many founders and their families are concerned about privacy. But gone are the days when foundations might seek to operate under a cloak of secrecy.

For one, giving anonymously is not really an option when a donor decides to establish a private foundation under U.S. tax law. By virtue of the tax benefits extended by the government, foundations have an obligation to operate for public purposes and to make regular reports to the public. Private foundations have long been required to provide information about their operations, especially since 1969, when a major overhaul of tax laws greatly increased formal scrutiny of foundation affairs.

And in the age of social media, where every individual and organization is expected to have a public profile, it is incumbent upon your foundation to adopt a communications strategy that reflects its mission and objectives. As philanthropy works to address the most pressing issues of our time, sharing information that is both useful to foundations and grantees — goals, strategies, and processes — has become a critical factor in achieving social change.

The Benefits of **Transparency**

Grantmakers often think of transparency in terms of how it benefits grantseekers and external audiences, pointing to how transparency serves to strengthen credibility, build public trust, and improve relations with grantees and other stakeholders. However, the value of increased foundation transparency may be even greater for grantmaking professionals themselves, as transparency also reduces duplication of effort, facilitates greater collaboration, and cultivates a community of shared learning and best practices.

Source: GlassPockets

The Barr Foundation stands out as an example of a foundation successfully navigating the shift from anonymity to transparency. Now a champion of openness, both for its own activities and for the field as whole, the Boston-based foundation certainly did not start out that way.

"It was like a secret society with a secret handshake, and you had to ask to be invited to click your heels together three times and you might get a grant," said Joyce Linehan, chief of policy for the city of Boston.

Then, the once famously secret foundation decided for the first time to publicize one of its gifts, $50 million to various organizations fighting climate change. Since then, under the leadership of Jim Canales, the Barr Foundation has publicized several years of tax returns and has instituted a publicly searchable database of its grants. That growing openness helped the foundation position itself as more than just a grantmaker, but a major, influential player in shaping local policy.

Transparency **Resources**

Glasspockets, a service of the Foundation Center, seeks to advance transparency throughout the field of philanthropy. Go to glasspockets.org to learn more about the benefits of openness and how you can achieve transparency within your own organization.

With this new baseline of transparency and openness in mind, the question is no longer whether to communicate your foundation's activities; rather, it is a question of who will do it, how, and on what platforms.

Developing a **Communications Strategy**

Communications has always occupied a large part of American life. But in the last decade or so we have entered into a new era of expression. Our use of computers, tablets, smartphones and other gadgets has dramatically accelerated, keeping us in a constant state of connectedness and information-sharing. Because of this, foundations agree that communications efforts are central — and essential — to their philanthropic work.

If you are thinking of setting up a foundation today, you'll need to consider how you will communicate its activities as a means to achieve its stated goals and objectives. There are many benefits to getting into the regular practice of conveying that knowledge to a wider audience.

In an influential Harvard Business Review article, Michael Porter and Mark Kramer argue that foundations can only justify their existence if they do more than merely transfer money. Foundations create value in four ways, according to Kramer and Porter, founders of FSG, a consulting firm for leaders trying to tackle social change.

In order of increasing impact, foundations add value beyond their financial contributions by:

- **Selecting the best grantees.** Like investment advisers, foundations channel resources to their most productive uses by studying a range of organizations and selecting the groups that are most effective.
- **Signaling other funders.** Foundations can attract additional resources from other funders who follow their lead when they can show that their grantees are especially effective.
- **Improving the performance of grant recipients.** Grantmakers greatly increase their impact when they offer more than financial support, providing management assistance, advice, and access to networks of funders and other peers.
- **Advancing the state of knowledge and practice.** Foundations produce the greatest value to society when they promote research and support projects that seek to produce increasingly effective responses to social problems.

The common thread in each of these approaches is that each of them requires foundations to communicate what they are doing to a broader audience, whether that means potential grantees, others working in a particular field, policymakers, or the public.

Foundations communicate in many ways and for many reasons, but it can be boiled down to three basic categories of activity:

- **Efforts to publicize their own work and the work of their grantees.** Foundations routinely publish annual reports and press releases, commission research papers, disseminate information via social media platforms, and communicate with journalists and the public about grants, mission objectives, and an array of other foundation activities.
- **Support for communications projects of grant recipients.** Foundations frequently pay for the publishing, media relations, and advocacy activities of nonprofits, in many cases as part of grant support.
- **Efforts to sustain and create nonprofit media programs and other public interest media activities.** Philanthropy is increasingly backing groups like public television, public radio, documentary filmmakers, local journalism organizations and a range of other nonprofit media projects.

Using pop culture to send your message

TV, film and social media can be powerful drivers of social change because well-told stories have the ability to resonate with a variety of audiences. AndACTION, a pop-culture hub supported by a number of influential foundations, is channeling this power by giving social-change organizations a heads-up on film and TV shows in production related to their causes. This gives organizations more time to develop effective campaigns designed to drive action and spur change. Go to andaction.org to learn more.

Learning About Communications Basics

Knowledge of the basic tools of foundation communications will be useful to you. What you choose to employ will depend on your objectives, but this primer will provide a basic menu from which to choose.

Understanding the IRS Form 990-PF

Every private foundation must complete and file a federal informational tax return, Form 990-PF. Not only must you file the form with the federal government, you must also make it available to members of the public upon request. Foundations have long had to file 990 forms, but over the past several years, the federal government has tightened its rules requiring foundations to make their reports more readily available to the public. Even without the IRS's new rules, however, many foundations are already publishing their 990 forms online as part of a larger movement toward greater transparency. Knowing that, it's important that you take the time to accurately complete your 990s in order to avoid any information being misconstrued and then publicized.

Guidestar (guidestar.org), a website dedicated to advancing transparency in philanthropy, publishes financial information for every single IRS-registered nonprofit organization. You may want to use its resources to stay up to date about accurate reporting.

Given that your financial information is going to be made public to a wide audience, you want to inform the public about your foundation by using one or more of the following simple methods. After all, while your Form 990 contains important information about your foundation, (and, according to the Urban Institute, it's the most commonly used data source about nonprofits), it certainly does not tell the full story of your grantmaking.

Making your Form 990-PF public and available

According to federal rules, your foundation must:

- File its Form 990-PF with the IRS by the 15th of the 5th month after the close of the foundation's fiscal year
- Make copies of the form available for public inspection; and
- Provide copies of forms for the past three years to anyone who asks for them. (IMPORTANT NOTE: If the foundation makes the form widely available, on its website for example, it need not respond to individual inquiries for copies.)

Publishing an **Annual Report**

Annual reports, which are typically designed to be comprehensive accountings of an organization's activities and financial performance throughout the preceding year, are not legally required. But as the field shifts toward more transparency, annual reports have become a routine practice for many foundations. Annual reports not only help foundations communicate with their stakeholders and supporters, they also help reach new audiences.

"Though transparency should be a guiding principle, it's important to convey information in a way that makes sense—especially when presenting financial information. Remember, your report isn't written for an audience of accountants."

— The Chronicle of Philanthropy

The content of annual reports varies depending on the needs of the foundation, but generally they include:

- Introductory essay(s) by governing board members, usually the chairperson, or by lead staff members, if there are any.
- Detailed or summary descriptions of each of the grants made during the year under review and, more importantly, what those activities accomplished.
- A basic financial statement, accounting for assets and liabilities, grant payments, administrative expenses, and other financial activity.
- Grant guidelines.

Family foundation annual reports reflect the full range of publishing option, which vary from high-quality glossy print publications to all-digital editions that employ the use of audio, eye-catching photography and video rather than text-heavy articles, and everything in between.

Many foundations still publish full-color annual reports that are then available in PDF format online. The Hall Family Foundation (hallfamilyfoundation.org) in Missouri employs this strategy well. But others are taking a more unique, interactive approach to telling their stories. The Arkansas-based Walton Family Foundation (waltonfamilyfoundation.org) publishes its annual report on a special section of its website. With a simple, easy-to-follow design, the reader seamlessly scrolls down from the introduction to the executive director's message, then to the financials and, lastly, detailed grant activities.

An **Innovative** Approach

The Rasmuson Foundation in Anchorage, Alaska, uses personal, web-based storytelling to communicate its work—and its impact—to the public. The foundation first commissioned a series called "Glimpses of Who We Are," which features artists sharing stories about what the work of the foundation's grantees meant to them personally. The foundation, recognizing the success of that form of communication, then launched the next iteration of that series: video storytelling.

Contents of an Annual Report

The contents of your annual report are entirely up to you: no law or regulation requires you to file one. Annual reports typically contain:

- Name and location of the foundation, names of officers and trustees, and name of contact person, and ways to reach him or her (telephone, mailing address, and email address);
- History of the foundation and biographical material about the founder;
- Mission statement and a report of the past year on grantmaking activities undertaken to carry out the mission (grantees and grant amounts are often given);
- Vignettes or longer stories about grantee activities;
- Grant application guidelines, application submission procedures, and grantmaking decision cycles by the trustees;
- Financial statements for the past year; and
- An outlook section previewing the year to come.

Publishing **Grant Guidelines**

Though many foundations publish their grant guidelines in their annual reports, many foundations also publish their grant guidelines in a variety of ways for wider distribution to potential grant applicants. Those distribution channels may now include any number of social media platforms, including Twitter, Facebook, LinkedIn, or Instagram.

You might worry that your foundation will be overwhelmed by proposals, but it's a rare complaint that a foundation has received too many good proposals. In any event, broadly publicizing what a foundation will support or its geographic restrictions also helps to limit the number of applications, by showing clearly what will fall outside a foundation's purpose. In fact, publishing your grant guidelines on social media gives you a different view of the process, allowing you to see who's engaging with your content and giving you the opportunity to answer questions in real time. Publishing your guidelines via social media can also generate more interest and spur competition — as well as collaboration — among potential grantees.

When Grant Announcements **Go Viral**

In June 2016, the MacArthur Foundation announced a competition called 100&Change that seeks to award a $100 million grant to a proposal that addresses one critical problem affecting our world today. The foundation generated quite a bit of buzz from potential grantees on social media by creating a sense of excitement about the grant's possibilities. The foundation used its Twitter account to provide a daily countdown to its deadline, and to link to its grant guidelines and FAQs.

Press **Releases**

Press releases are simple, effective ways to inform the press and others about an upcoming event or activity. You may wish to issue press releases concerning major grants by your foundation, but it is more common for the recipient organization to draft a press release describing the project and acknowledging supporters as part of the statement. Either way, you should establish a policy about press releases, including who will write them, who will handle phone calls and emails asking for more information, and who will work with beneficiaries to ensure they have the details they need for their own announcements.

With changes in the way news is now distributed, the role of the press release has shifted, and may or may not be the cornerstone of your public-relations strategy. Organizations used to issue press releases to alert the media of their activities and, in turn, the media would write about them. Today, your foundation can be just as much of a publisher as any other media outlet, and you may find that more of your foundation's announcements can be disseminated through social media channels instead of emailed press releases. Further, you may wish to reserve a section of your website devoted to news releases. This provides interested parties an easy way to get a sense of your foundation's accomplishments throughout the years.

Many press releases being written today include ready-made content with the idea that recipients will easily share information that they themselves don't have to write. Including sample tweets and Facebook posts with relevant links in your press releases can make sharing your foundation's activities that much easier, not to mention it gives you more control over your own messaging.

Basic Contents of a **Press Release**

- Date of release and when the media can publish the information;
- Name, telephone number, and email of person for further contact and information;
- Headline that presents the key message;
- Lead paragraph that states the top news elements (the what, where, when, and who);
- Second paragraph that presents the why and how;
- Third paragraph with further details;
- Fourth paragraph with a quote from the founder, a trustee, or other person in authority;
- Additional details, such as the foundation's boilerplate message or mission statement;
- Links to relevant content such as blog posts or news articles for people to learn more;
- Sample social media content such as ready-to-post Tweets or Facebook posts that allows your audience to share the information more easily;
- No longer than 400 words.

Example of **Web-based** Press Release

Press Release Announces Grants to Summer Youth Programs

KIDS FAMILIES COMMUNITIES LEADERS

THE ANNIE E. CASEY FOUNDATION

OUR WORK BLOG ABOUT US CONTACT US
KIDS COUNT DATA CENTER ›

BLOG ›

The Foundation Awards Over $850,000 in Grants to Summer Programs for Baltimore Kids and Youth

POSTED MARCH 29, 2016, BY THE ANNIE E. CASEY FOUNDATION

SHARE VIA:

Above: Photo credit: [illegible]

The Annie E. Casey Foundation has awarded grants to 43 local nonprofits through its Baltimore Direct Services Grants (BDSG) program, amounting to a combined $860,000 that will support summer activities and programs for hundreds of Baltimore City's young people.

The Foundation's awards are among a total of $3 million in grants from several of the city's charitable organizations, all geared toward funding high-quality summer programs that serve city

NEWS RELEASE

For Immediate Release

Media Contact:
Arin Gencer
410.223.2823
media@aecf.org

@ArinGencer

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Communicating in **Today's Digital World**

Not having the time or the extra hands to handle communications work used to be the main reason most foundations did not publish information about their activities. Today, anyone with a computer, tablet, or mobile device can easily share information across a variety of platforms. And with the vast majority of the population now online—close to nine out of 10 Americans (87 percent) use the internet according to the Pew Research Center—now is the time to embrace a digital communications strategy.

The question is: Do you or someone in your family have the basic skills to communicate your foundation's messages effectively? If so, you should consider assigning a board member or a staff member to be the principal official handling all matters of communications.

If you think you need help with determining what exactly you want to communicate and how you want to do it, you may also wish to hire a public relations or communications consultant. They can help with ad hoc tasks such as handling your social media presence, preparing an annual report, generating press releases, developing content, or any other communications task. On a more strategic level, a communications professional can help you implement a more cohesive strategy that reflects your foundation's mission and goals.

Your digital communications strategy can include all of the following:

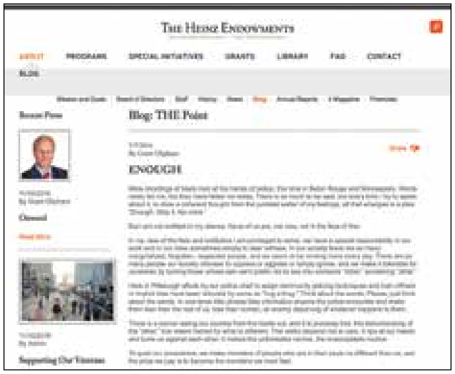
1. A website

With all the choices for communicating to the public, it's no longer necessary for your website to be the sole centerpiece of your digital communications strategy. Many foundations engage with audiences in real time over social media, and designate their website as a destination to learn more about the history, mission, and objectives of their organization. On the other hand, websites are also more interactive than ever before, showcasing innovative storytelling through video, animation, and more.

The first step is to decide what you want to do with your website. Do you want to be a content publisher, curating relevant news in your field or writing blog posts about the work of your grantees? Or do you want to set up your website as more of a resource for grantees and family members?

A number of foundations draw visitors to their websites by featuring original, high-quality content in the form of blog postings—many of which are written by the foundation leaders themselves. Ruth Ann Harnisch, founder and president of the Harnisch Foundation in New York, has taken the lead on communicating her foundation's objectives. On her blog, "Ruth Ann Writes," she shares her insights, her personal opinions, and everything in between.

And Grant Oliphant, president of the Heinz Endowments in Pittsburgh, Pennsylvania, took to his foundation's blog to issue several powerful statements after a string of police-involved shootings across America. "In my view of the field and institution I am privileged to serve, we have a special responsibility in our work and in our roles sometimes simply to bear witness," he wrote.



2. A newsletter

Newsletters can give audiences a snapshot of your foundation's recent work. You may choose to send a monthly or quarterly newsletter, depending on how much you have to report to your key stakeholders. With new material being published every day on the Internet, it's easy to miss a story. Newsletters allow you to repackage your content and present it in an easily digestible format. MailChimp and Constant Contact are two popular, cost-effective newsletter platforms that allow you to track helpful analytics like showing who opened your email, which links were most clicked, who unsubscribed from your list, and more.

3. A social media presence

Social media is powerful. It is one of the most effective ways to communicate with your core audience, attract new grantees and gain the attention of influencers who could help spread your mission. If you have a website with a robust selection of content, you can use social media to drive website traffic and, ultimately, elevate the importance of your work.

If you're thinking about establishing a social media presence, here are some considerations:

1. Determine what you want to accomplish by being on social media. Are you trying to gain a wider audience for your content? Do you want to reach potential influencers who can help carry your message? Do you want to engage in real-time conversations? A successful social media presence usually incorporates all three of these elements.

2. Establish what the voice of the foundation will be. If you hire a communications director or a contractor from an outside firm, that person needs to be able to tell your story in a way that represents your mission and your values.

3. Evaluate your staff's skill set and determine who will handle your social media. Can that person communicate about your foundation's work in short, interesting snippets that people will want to click and share?

4. Determine how much time you want to devote to social media. Maintaining these channels is a weekly, if not daily, responsibility.

Popular social media platforms:

Twitter: Transforming the way we communicate in real time, this free social networking platform allows registered members to broadcast short posts called tweets that are limited to 140 characters. Twitter allows you to take part in conversations happening all around the world, and the platform remains our best indicator of what's happening when and where.

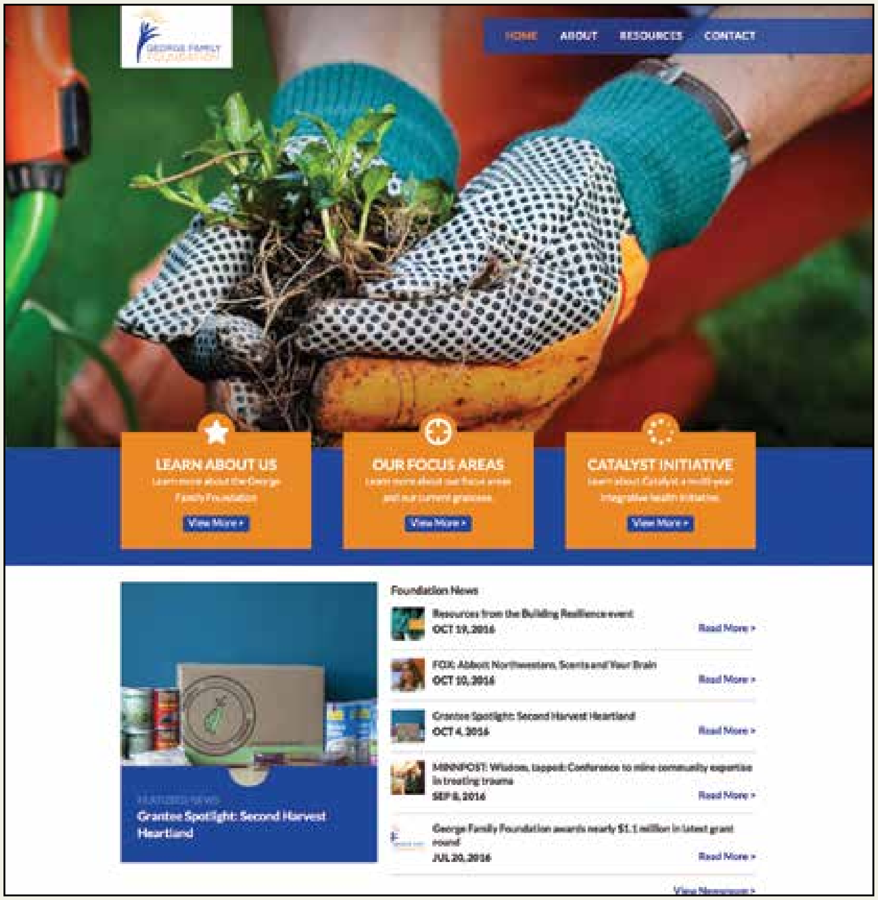
Facebook: Facebook remains an excellent tool for communicating your foundation's message and your grantees' activities to a wide audience. With no limits on characters, Facebook posts can include photos, videos, links and more. Some foundations, like the Rockefeller Foundation, use Facebook to showcase documentaries or short video clips that are easily shareable.

Instagram. There are so many ways to tell your story, and they don't all need to be through words. If you're interested in bringing the work of your foundation and your grantees to life, consider hiring a photographer/videographer to capture stunning images of your foundation's efforts in action. One example of a foundation using Instagram with great success is the Open Society Foundations. Its

Instagram feed features documentary photographers across the globe who feature a different human rights issue each week.

LinkedIn: If you are looking to connect with professionals who work in a certain industry — or expand your thought leadership around a specific topic — LinkedIn offers a number of advantages. Unlike many other social networking sites, LinkedIn is organized around people's professional activities — and it offers a serious platform for discussing serious ideas. A number of foundation leaders use LinkedIn's blogging platform to publish their writings and reach new audiences. LinkedIn also includes a number of robust groups that include focused conversations about specific topics, including NCFP's Family Philanthropy Network.

Example of a Website Homepage



Finding Communications **Resources**

Foundations have a number of resources to help them launch communications activities. The first stop for guidance is the Communications Network, a Washington, D.C.-based affinity group (an organization of foundations with similar interests), whose express purpose is to:

- Raise awareness of the importance of communications in philanthropy;
- Expand and enhance the fields' communications capacities; and
- Provide resources to foundations and their grantees to help them make the most of that capacity.

The Communications Network carries out its goals by publishing guides, conducting workshops, and offering technical assistance and a wide range of other services, mainly for foundation trustees and staff. Go to comnetwork.org to learn more about this valuable group.

The Stanford Social Innovation Review (SSIR), published by the Stanford Center on Philanthropy and Civil Society at Stanford University, is a powerful resource for finding the latest research and practice-based knowledge on a range of topics such as communications strategies for maximizing impact and more. Go to ssir.org to learn more.

Working Narratives is a group that focuses on the importance of storytelling for social change. The organization provides training in:

- How to tell effective stories;
- Technology to produce and disseminate those stories;
- Production of compelling stories to serve as model projects for the grassroots; and
- Networking to build power in and among social justice individuals and groups that use narrative forms.

Download its "Storytelling for Social Change Guide" by Paul VanDeCarr to learn more about telling stories across a variety of platforms for various audiences. Go to workingnarratives.org to learn more.

Supporting **Media That Matters**

Foundations are in the business of making the world a better place. Preserving the environment, reducing violence, and improving education are a few examples among the many philanthropic objectives that foundations may pursue. But are we applying ourselves as effectively as we might?

In every case, popular debate shapes the public policies that will determine whether or not we make progress on these big issues. Certainly, foundation-funded basic research, direct service, and demonstration projects can be building blocks in making the case for policies that improve communities and advance the public interest. But ultimately, success in the policy arena depends to some degree on media and communications. And while it's true that foundations already support a broad array of media activities, grantmakers could be—and should be—investing far more resources into strategies that inform and persuade. There's no question that philanthropy can support independent expression that carries out the mission of the organization.

Take, for example, the issue of climate change. Over the past decade, while scientists have been sounding increasingly frantic alarms that we are nearing a point of no return in climate change, public opinion support for those views has declined. According to the Pew Research Center, there's a big gap between what scientists believe and what the general public believes — 87 percent of scientists say that climate change is occurring because of human activity, while only 50 percent of the general population believes that humans are causing climate change.

And the sharp decline in reporting on these issues and more that resulted from the collapse of the newspaper industry and traditional media as a whole is not helping. In response to the lack of environmental coverage, the Rockefeller Brothers Fund helped to establish a new independent journalism initiative called InsideClimate News to ensure that there would be a watchdog keeping tabs on the extractive industries. The news organization has had a huge impact on the energy industry, winning a coveted Pulitzer Prize for its coverage of a massive oil spill into the Kalamazoo River.

In many other areas, media makers and the foundations that support them are seeing breakthroughs on important issues where there is competent and sustained media attention.

The California Endowment, for example, commissioned a recent report, called *Communications Strategies that Fast Track Policy Change*. In case studies covering documentary film, journalism initiatives, and strategic communications projects, the Fast Track report lays out 10 key elements of success. Among them:

- **Solutions:** The majority of these initiatives contained messages not just about the problem, but about a range of potential solutions.
- **Policymakers:** Identifying policymakers explicitly as a target audience and devoting appropriate resources to outreach is key. One of the remarkable examples of this approach is the documentary film The Invisible War, which depicts the epidemic of rape in the military. Reaching high-ranking American military leaders resulted in dramatic policy changes.
- **Repetition:** The continuity of coverage that comes from a journalistic series on a topic or a paid advertising campaign results in a multiplier effect on awareness building.
- **Humanity:** Engaging community voices can be a powerful way to give an issue a human face.

Support for media activities can be broken into three major categories:

1. **Journalism.** For many years, foundations have supported independent nonprofit journalism organizations like the Center for Public Integrity, the Center for Investigative Reporting and the Fund for National Progress (Mother Jones). In recent years, many nonprofit news organizations have sprung up, in large part responding to the decline of the newspaper industry.

2. **Documentary film.** Foundations have long supported the work of documentary filmmakers. The breadth and depth of foundation support for film has expanded to a point where some filmmakers regard the current era as a golden age for documentary films.

3. **Nonprofit media activities.** Increasingly, nonprofit organizations are themselves taking on media activities by publishing directly to their audiences. With the help of the Ford Foundation, the ACLU of Michigan hired its

first investigative reporter to look into the emergency manager law in Michigan. What the organization uncovered was a poisoned water supply in the city of Flint and a massive government scheme to cover it up.

Mapping the field of media and philanthropy

Media is one of the most powerful tools for social change, and philanthropy is using media to address pressing global challenges in remarkable and myriad ways. And today, the term "media" now means so much more than just journalism and newspapers. It encompasses a vast array of activities from developing mobile phone apps to launching advocacy campaigns to strengthening the policies and infrastructures involved in media creation, transmission and access.

The field of media and philanthropy is growing rapidly, and it now extends beyond activities tracked by previous research. New data show that in 2009, U.S.-based funders made $921 million in media grants, but in 2013, funding topped $1.2 billion—an increase of over $315 million.

With that broad framework in mind, Media Impact Funders—a growing network of funders using media and tech to address social issues head-on—has released a comprehensive media grants data mapping tool, Foundation Maps for Media Funding. The tool allows users to dig deep into the numbers, networks and trends surrounding media and philanthropy.

Foundation Maps for Media Funding gives users:

- Grants data from 2009 to present, with most complete data through 2013;
- Data with a more global reach;
- Downloadable information and charts;
- Details on types of grantmakers and grants, including corporate giving and program-related investments; and
- A powerful "Constellation" feature that highlights relationships between funders, grantees and grants.

Benefits for family foundations:

- Understand who is funding what, where and how much, and how your organization fits into the big picture;
- Be more strategic in decision making, planning and evaluation;
- Reduce duplication of effort and foster successful collaborations among other funders with shared goals;
- Facilitate effective partnerships with grantees and other foundations; and
- Help staff get up to speed on the field, relationships, and the work of peer, regional and local institutions.

Go to mediaimpactfunders.org to learn more.

A Closer Look: **Journalism**

The data we have on U.S. funding for journalism show significant growth since 2009, when totals were $162 million, including $52 million for the Newseum in Washington, D.C. A spike in the number of grants and overall funding in 2011 shows the philanthropic response to the financial woes plaguing traditional media companies, when total journalism grants from U.S. funders reached $223 million. However, these figures also include $80 million in funding from only two grants that year: $30 million for the Newseum and $50 million for the Annenberg School for Communication at the University of Southern California. In recent years, funding has decreased slightly from that high point and the latest trends available from 2013 show funding levels at $189 million.

Source: Foundation Maps for Media Funding: Introducing a New Tool for Unlocking the Power of Media Grants Data

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Ethical support of media

Philanthropy provides increasingly important support for nonprofit journalism, for varying reasons. Some support journalism as a fourth estate—a necessary check on government. Other foundations are interested in journalism as integral to their work on democracy and civic engagement. And still others may be most interested in the content itself as a means to move the needle on particular issues. In recent years, foundation support has helped launch award-winning, high-impact news organizations like the Marshall Project, which covers the U.S. criminal justice system. And many others in the nonprofit sector have had an enormous impact on important issues.

But this increased foundation interest in journalism has sparked a growing consensus that nonprofit news organizations should adopt a universal set of ethical guidelines to help guide foundations and organizations in decision-making. The American Press Institute—an educational nonprofit that helps advance news media in the digital age—has been exploring that ethical terrain. "The ethics of taking grants from foundations and gifts from donors to produce news is still evolving and not without controversy," reads the report, titled *Charting New Ground: The Ethical Terrain of Nonprofit Journalism*.

For traditional commercial media outlets, the Society of Professional Journalists is a leading voice on the subject of editorial standards and ethics, and many outlets abide by SPJ's Code of Ethics. In it are guiding principles on minimizing harm, being accountable and acting independently. But nonprofit news organizations—whose ethical issues include grant transparency and funding for specific coverage areas—do not have a set of universally accepted guidelines that can help them make decisions about such quandaries. Many argue that the institution of such a code is way overdue, especially with more nonprofit news outlets picking up the slack left by failing and/or shrinking commercial ones.

Supporting nonprofit news media is a role foundations have embraced head-on. In response to the decline of newspapers, nonprofit news organizations are taking the lead on in-depth, explanatory and investigative reporting. But philanthropy must also recognize the limits of its influence. It must acknowledge the importance of editorial independence for these news outlets because, ultimately, there is no point supporting the work if the support itself threatens to undermine it. ■

PART IV
RE-CREATING AND REVITALIZING

SPLENDID LEGACY: ENGAGING THE **NEXT GENERATION**

BY SUSAN CRITES PRICE

When is it the right time to involve the next generation in your foundation's work? Some families begin when their children are as young as 8. Many others wait until their children are well into adulthood. But as you think about when to get your children or grandchildren involved, consider the fact that it's never to early to expose your family to philanthropy.

"Not one person I've met wishes they had waited a little longer to introduce their children, nieces, nephews and other family members to the family's philanthropy," said NCFP President Virginia Esposito. "Those who did start early speak of the joy of sharing a favorite book about giving with a child, a site visit with a pre-teen, or a conversation with or about a grantee over dinner."

If You Build It, **Will They Come?**

When families contact the National Center for Family Philanthropy for advice, their most common questions center on getting the next generation involved in their foundations' work. These questions often include:

- How do we decide whether to involve our next generation in the foundation?
- Once we decide, when and how do we prepare them?
- Can we make sure the next generation understands and appreciates the philanthropic legacy they will inherit?
- How much change can we expect if they join the board?
- How do we raise our children to be philanthropic or have a heart for giving, regardless of whether they participate in the foundation's work?

The answers to these questions will differ because no two families are the same. But there is a common question every family can ask to help clarify its thinking about these issues:"Why do you want family involvement, and what does that mean to you?"

As you think about your answer to this question, be clear about your motives. If your children are not yet adults, are you mainly focused on raising them to be charitable or do you want them to develop certain values? Do you want to prepare them to eventually become foundation trustees? How will involving the next generation in the foundation affect your family's dynamics? Do you hope that working on the foundation will be the glue that holds the family together when it expands and becomes geographically dispersed? Do you want to bring fresh thinking, creativity, and different perspectives to your board deliberations?

Think about your own role, too, and the value of planning ahead. "In some foundations, the senior generation sees its role as evolving from strong leadership to shared leadership to moving on and leaving things in the hands of the next generation," said Alice Buhl, Senior Consultant, Lansberg, Gersick & Associates and NCFP Senior Fellow. "At each step of the way, they plan for a transition." (Ideas for senior generation transitions can be found at the end of this chapter.)

Trends in Next Generation Philanthropy

The National Center for Family Philanthropy's 2015 Trends Study reveals some interesting insights into how families are engaging the next generation:

Overall, 56 percent of family foundations engage younger family members in the foundation.

- As the age of the foundation increases, it is more likely to engage its younger generation.
- There is no statistical difference in engagement by size of foundation.

The most common methods of engaging younger generations include:

- Creating seats on the board for younger generation members (66 percent of those who report engaging the next generation).
- Organizing formal discussions on the core values of the family foundation with younger generation members (64 percent).
- Taking younger generation members on site visits (56 percent).
- Providing discretionary or matching funds for grantmaking by younger generation members (51 percent).

Regardless of age or size, family foundations that are engaging their younger members believe younger generations bring new ideas and vibrancy. But respondents also noted some challenges and potential areas of conflict:

- 40 percent say younger family members have moved away from the foundation's geographic location.
- 40 percent say the younger generation is interested in different issues than the older generation of leaders.
- About a quarter report the younger generation has no time to serve on the board.
- Another quarter say the older generation is reluctant to share decision-making with the younger generation.

Whose Responsibility Is It?

As families cultivate the next generation for work in the foundation, the roles typically split this way:

- **Parents** — Raising children to be compassionate and financially literate and who don't grow up with a sense of entitlement but with a sense of stewardship.
- **Extended Family** — Teaching about the family's history and legacy.
- **Foundation Board** — Planning for the succession and continuity of the family's foundation. (Foundations with staff sometimes delegate to them some responsibility for next generation engagement.)

New **Voices**, New **Roles**

If you or your board feel strongly about the way the foundation should be run, it might be difficult to integrate a new generation with its own ideas. It's wise to consider how the views of the newcomers can be heard, respected, and incorporated into the foundation's future direction.

"Parents want their children to be responsible adults who make mature decisions about wealth and philanthropy; however, the actual transition from a parent-child relationship to one of peers can be harder than most families anticipate," said Sharna Goldseker, executive director, 21/64, an organization that specializes in next generation and multi-generational strategic philanthropy.

If you decide you want to include the next generation, the next most critical step is to ask if they want to be involved. Don't assume the younger generation will be interested in serving just because you want them there. To improve the likelihood that they will want to serve, involve them early in your planning. If they have input in the process, they will be more likely to feel invested. You could also start small with an experiment to gauge interest, such as inviting them to go on site visits.

Succession vs. Continuity: What's the Difference?

The terms succession and continuity are often used synonymously in discussing generational issues in foundations, but they are not the same thing. "Succession reflects the sequential aspect of transition, as one thing needs to end and be 'succeeded' by something new," said family systems expert Kelin Gersick, senior partner of Lansberg, Gersick & Associates. "Continuity refers to the part of the present world that needs to be preserved in the new era. Both succession and continuity are essential, in proper balance, in order to minimize the disruptive consequences of generational transition." When the time comes for a formal generational transition, the family must then decide what needs to end and what needs to be preserved in the new era. "Answering these questions is the work that families do together as a framework for thinking about the roles of each generation," said Alice Buhl, Senior Consultant, Lansberg, Gersick & Associates and NCFP Senior Fellow.

Why It Is **Critical to Start Early?**

If you created your foundation to bring your family together around philanthropy, why not invite the next generation to participate from the beginning? If the children are teenagers or younger, it may seem premature, but more foundations are finding ways to include children as young as elementary school age in philanthropic activities that will stimulate their interest in the family's giving.

Waiting until they are 18 or older reduces the chances that the "kids" will have the time or interest to engage in the foundation's work. Young adults may be too busy juggling college, families, travel, or careers. They may not be interested in taking on one more responsibility that can require a lot of time.

Zach Whitten of the Lumpkin Family Foundation was involved in his foundation's next generation programming, including grantmaking, starting at age 10. By the time he was a busy college student, he was hooked on the foundation's work and remained active in its next gen board. "You find time for something you care about," Whitten said. "I think it's a really important thing and I enjoy doing it." He doubts he'd have made the foundation work a priority if his family had waited until he was in college to engage him.

Strategic Planning Timed to a **Generational Transition**

"If you are welcoming the next generation, it's a wonderful time to sit down and reevaluate what you're doing because, even if you're doing wonderful things, people want to feel engaged," says Elizabeth Tauck Walters, President, Tauck Family Foundation. "Even if you go through a strategic planning process and you decide, 'we're going to continue to do the same thing,' those new members feel ownership over that decision. Going into the strategic planning process with our new third generation members at the table really allowed them to feel part of the process and to know that they helped build what we're doing right now."

Inclusion vs. **Selectivity**

When you decide to invite the next generation to join your board, you must decide whether you plan to invite each member of that generation — or only some of them.

Some families prefer to extend the invitation to all family members who reach a certain age, or all of one generation.In small families, including everyone in the invitation might be desirable. But this should be done with the understanding that a newly eligible family member can opt out if the timing isn't right and will be welcomed in the future if or when the situation changes. And no family member should feel there is a stigma for not stepping up to serve now or later. "The family culture needs to let people have options, to opt out of the foundation and still be a member of the family," Buhl saidays.

Other families, particularly large ones, take a more selective approach. They may ask interested family members to apply for open board seats, and set criteria for eligibility, such as going through a period of training and preparation first. For example, prospective board members might be expected to participate first on the next gen board, serve on a board committee, attend a philanthropy conference, or audit a certain number of board meetings.

Some states have age requirements for nonprofit board members. Some states require board members to be at least 21 years old. Others allow boards to include those as young as 16. But some states do not have laws addressing age requirements for board service. Before extending invitations to the next generation, check with your attorney or your state government's department overseeing nonprofit issues to make sure you know the rules.

The process you use will depend on which generation you are bringing on, Buhl said. If the senior generation is bringing on its adult children, "they are dealing with siblings who grew up together and have shared values." The process can get more complicated with the grandchildren. Cousins may not have grown up together or even know each other. "Some are qualified to be board members and some are not," Buhl said. "Some may get to be foundation leaders" but not all. It's hard for parents to make choices among their offspring. An open, transparent process that is created with the involvement of the next generation can make the decisions easier.

Stewardship vs. Entitlement

No members of the family should feel entitled to a board seat. "We need to teach young people the critical difference between the privilege of doing this work and being entitled to be a part of it," Esposito said. "The question is, are you willing to do what it takes to be a good board member," Buhl added.

Options to Board Service

There are many ways to engage in a family's foundation beyond serving on the board. Families should consider creating other opportunities for younger family members to learn and serve, particularly if there are not enough spots on the board to accommodate everyone or if they do not have time to make a commitment to board service.

Examples include:

- Conducting site visits
- Serving on a board committee
- Providing a special skill (such as website design, creating a social media presence for the foundation, conducting oral histories with the senior generation, etc.)
- Being part of a grants review panel
- Organizing a family volunteer project
- Conducting research on an issue area the foundation is exploring
- Serving an internship in the foundation office
- Making videos about grantees

Next Generation Boards

Next generation boards give young family members an opportunity to work together and learn about philanthropy and about the foundation in which they may play a future role. These boards have a number of different names, including junior boards, adjunct boards, junior advisory committees or the "Third" Generation Fund (or higher, depending on which generation it's for).

Foundations can set up their next gen boards a number of different ways. Some next gen boards are required to make their grants within the focus areas of the foundation. Others are allowed to choose their own program areas. Some family foundations provide a fixed grant making budget for the group or per youth member participating. Others provide a percentage of the foundation's projected payout for a given year. Some can send a voting representative to the foundation's board. Others have no voting rights but are invited to sit in on board meetings and go on site visits.

Age requirements vary, too. Some families start when children are as young as age 8, while others require participants to be at least 18. Deciding on an appropriate age range for your board can be a challenge. Say you have 10- to 22-year-olds in the next generation. This might work if the older members mentor their younger family members. In some cases, joint activities such as site visits and volunteering might work well for a diverse range of ages. But some foundations find the older teens want programming separate from the children, including more significant grantmaking responsibilities.

There is no one model that works well for every family. Aim to create a structure that fits your family's needs and invite the next generation's input on how it will work. If they help create it, they will be more enthusiastic participants. But don't stop there. Survey the group at regular intervals to see if the model of your next gen programming needs tweaking, as it likely will as members age and times change.

Foundation boards are legally required to give final approval for all foundation grants. This means that grants decided on by the next gen board must receive official approval even if the next gen's grant decisions are always honored.

Importance of Reflection

Many foundations invite young family members to go on site visits, attend board meetings or participate in family service projects. But Lisa Parker, President of the Laurence Welk Family Foundation, warns that these experiences can be perfunctory without also building in time afterward for reflection.

She suggests asking the following questions:

- What was the experience like?
- What was enjoyable, confusing, uncomfortable, meaningful, surprising?
- How do you feel after having done this?

"This cements the experience for them and allows them to name what was positive about it and where they may have more interests and questions," Parker says. "Intentional reflection should be built into the process."

Engaging the family's younger generation in foundation work will require effort on the part of the board or staff. If you are hiring staff, recruit people who can relate well to young people.

Ideas and Tips for Creating a **Next Gen Program**

The Lumpkin Family Foundation of Mattoon, Ill., has devised a multi-faceted program to engage its youth in philanthropy. Here are some of its key elements:

- Beginning at birth and continuing through young adulthood, each individual gets an age-appropriate book and a letter from the foundation board chair every birthday. This creates a personal philanthropic library and also promotes parental conversations about philanthropy.
- At annual gatherings, family members of all generations go on site visits and volunteer together.
- All family members between the ages of 5 and 21 can participate in a 5-to-1 matching gifts program.
- Youth ages 10 to 15 can join the Sixth Generation Committee with $100 per member allocated for grantmaking.
- The Next Generation Fund for ages 16 to 21 awards $7,500 for youth education in a community where a 6th generation member lives or attends school.
- Family members 5 to 21 who volunteer for nonprofits are eligible for the Mollie Lumpkin Award.

The foundation advises other families to start small and build youth-philanthropy efforts based on what works with their family's culture and the ages of their youth. Lumpkin surveys its next generation every two years to ensure that it is receiving its input. The foundation also suggests using older cousins to help younger ones and to let the youth facilitate their own meetings. The foundation staff also suggests involving parents but treating each child as an individual with an identity distinct from those of their parents.

Some **Cautions**

Next generation boards can become an excuse for the current generation of leadership to put off including the next generation in the leadership of the foundation. Such a board should be set up with the understanding that as the next generation becomes more experienced, its members will be given more responsibilities—-such as larger grantmaking budgets—and that this work is preparing them to ultimately join the full board. Be explicit about when and how next generation board members can be considered for full board membership.

To fully prepare next gen members for the board, don't just give them a pile of money to give away. Participants should learn how the rest of the foundation operates. For example, they should be given the opportunity to learn about community needs, how the nonprofit sector functions, the foundation's mission and programs, and how the grantmaking is funded by the foundation's investment of its endowment. The lessons need to be age appropriate, of course. A 10 year old might not grasp the nuances of investing or reading nonprofit financial statements. But simple concepts can be introduced and expanded on as next gen members gain experience. Don't underestimate what youth are capable of understanding.

To avoid sending the message that philanthropy is just about giving away other people's money, you might encourage young family members' personal giving by having the foundation match their donations to charity. Some foundations also provide discretionary grants to young family members who perform a certain amount of volunteer service. In this way, the young people can provide more help for nonprofits they feel passionate about—and they see that you value their charity work.

How One Family Engages Its **Youngest Members**

When Shirley Welk Fredricks, then president of the Lawrence Welk Family Foundation, decided to create a junior board in 1983, it was one of the first such boards in the country. Her five children plus their five cousins ranged in age from 11 to 23. They attended board meetings, and afterward met as a group to make grants with 10 percent of the foundation's grant budget.

"We weren't restricted by the focus areas of the foundation," said Lisa Parker, the board's current president, who was 13 when the next gen board was created. "We were able to fund programs fighting AIDs and support local environmental organizations." When it came time for the fourth generation to become engaged, some of that generation was still very young — too young for typical junior board activities.

Rather than excluding the youngest members — some of whom were as young as 4 — the family began an event called Cuz-apalooza, which was part of an annual family gathering. "They didn't have fully formed passions yet, so we exposed them to a wide variety including animal causes, conservation, the environment, food justice," Parker said.

Today, the family's next generation take part in volunteer projects, site visits, and fundraising "because we want them to understand that philanthropy isn't just about giving away money but it is about service and fundraising," Parker said. The best part is "they get to do this with their cousins. There are now 40 of us and we live all over the country. We simply wouldn't know each other without this."

Help from the Field

The Frieda C. Fox Family Foundation has been one of the family foundation field's most vocal proponents of engaging young people in philanthropy. In addition to creating its own next gen board in 2006 with family members as young as 8, the foundation has been a leader in helping other foundations engage their youth.

The foundation saw a need for youth from next gen boards to meet with their peers from other foundations, just like adult board members do at their professional conferences. Thus was born Youth Philanthropy Connect (YPC) in 2011 — a first-of-its-kind national convening for family foundation next gen boards. The initial event drew about 30 young people ages 8 to 18 from four family foundations to meet at a Disneyland conference center. The retreat, which was planned by a committee of young people, provided a venue for young grantmakers to explore models used by other youth boards and to make a strategy for staying connected with each other and including other foundations' youth in their network. This effort has continued to grow annually, and YPC now holds numerous training opportunities for young grantmakers and the adults who support them.

Youth Philanthropy Connect (YPC), the youth-led, peer network for young people in philanthropy ages 8 to 21, has created many valuable resources for the field including case studies and an issue paper for NCFP called "Igniting the Spark: Creating Effective Next Gen Boards." The YPC website also has a Resource Room with additional materials from other sources (http://www.fcfox.org/books-and-tools-for-engaging-the-next generation/).

Family **History**

In his book *The Secrets of Happy Families* (2013, HarperCollins), Bruce Feiler wrote that researchers at Emory University found that "the more children knew about their family's history, the stronger their sense of control over their lives, the higher their self-esteem, and the more successfully they believed their families functioned." It's important for families to pass on knowledge about their history to their next generation.

By the third generation of a family foundation, the youngest family members might not have known their grandparents. But you can cultivate a stronger sense of the donor's and the family's history and traditions without stifling fresh perspectives and ideas of the next generation.

The Laird-Norton Family Foundation in Seattle offers an example of how foundations can share their family history with future generations. The seventh generation of the foundation's founders now includes approximately 450 living family members. And while they live all over the world and have many professions, they come together every year to cultivate their strong connections to each other and carry on the family's philanthropic tradition. Over the years, the family has published two volumes of family history, produced a 150th anniversary video, written a play about the founders that is performed periodically at their annual meetings, and even created a coloring book to share their story with their youngest family members.

Kids can interview grandparents or other relatives and put together an audio or video recording as a lasting gift for the family. The Story Corps website (storycorps.org) has sample questions. You can even use their smartphone app to make an audio recording to add to the Story Corps archive.

What About **Other People's Kids?**

Some family foundations make it part of their mission to help raise a new generation of givers beyond their own family's children. They fund youth grantmaking boards so youth in their communities can gain philanthropic experience and learn about the nonprofit sector. Some provide funds for youth grantmaking programs run by community foundations, schools, and other groups. A few run their own programs. For example:

The Highland Street Foundation in Boston partners with schools and community organizations, such as Boys and Girls Clubs, to teach small groups of students how to evaluate nonprofits in their community. They make site visits, present their findings, decide together how to allocate the grants, and present checks to the nonprofits at a ceremony.

"Through our Youth Philanthropy Initiative, our kids learn first-hand that you do not need to be wealthy to contribute to your school, neighborhood and society at large" said Noreen McMahon, senior director of programs. "Our goal is to cultivate a lifelong interest in community and demonstrate that every person can make a difference."

The George Foundation in Richmond, Texas, runs a program for 175 high school juniors and seniors in partnership with area schools, the Chamber of Commerce, businesses, and nonprofits. The students work on a variety of volunteer projects designed by local nonprofits. Through their volunteer experiences, the students become better equipped to determine monetary awards for the nonprofits. The year culminates in a luncheon attended by approximately 800 people where the nonprofits receive their grants, and scholarships are awarded to students.

The Burton D. Morgan Foundation in Hudson, Ohio, supported an unusual, multi-generational project between a middle school class and a retirement community. The foundation paid for a training program used by a teacher to prepare her students for grantmaking, then provided a fund so the students could work with the senior citizens to make grants.

When the Kids Are **Already Adults**

Families may have reasons for waiting until their children are adults before inviting their participation in the foundation. Many of these young adults will welcome an invitation to join the foundation board or participate in other ways. Others will be in a stage of life where busy careers and/or family obligations make serving on the board a challenge. As a result, the opportunity should be presented in such a way that an individual can decide to postpone service on the board until later or turn it down altogether without judgment. A middle ground might be serving on a committee or taking on a particular task to help the foundation in ways other than board service.

As new members join the board, you'll probably need to adjust your practices to accommodate them. Scheduling, location, and frequency of meetings may need to change if the next generation must travel from far away to attend. Use of technology to hold some meetings may be an option.

There will also be a learning curve for new members to grasp the foundation's history, grantmaking, investment strategy, finances, and even the family board dynamics. In some cases, the board chair will be charged with providing orientation for new family board members. In other cases, that task will fall on the foundation's lead professional staff member. Older-generation family members can also be assigned as mentors. Also, it's wise to encourage new or prospective board members to attend philanthropy conferences, webinars, and other training opportunities.

The National Center for Family Philanthropy's Trustee Education Institute provides a comprehensive overview of the key legal, investment, ethical, grantmaking, and family dynamics issues facing family foundation board members. In addition, NCFP's monthly webinars cover a range of topics. All are archived so that board members can search the Knowledge Center for a subject they need to know more about.

Some foundations use the arrival of next generation board members to totally rethink their mission and grantmaking focus areas. Usually, however, new generation members are joining a foundation with long-established grantmaking priorities that may or may not align with their own interests. As a result, some foundations offer new members discretionary grants so they can support things they are passionate about, particularly in their home communities. Some foundations also offer matching grants to encourage personal giving. Eventually, with the benefit of the younger members' new perspectives and expertise, the senior members may become motivated to revisit their strategies and focus areas. That's when you know the foundation is truly working as a multigenerational organization.

Making Room for the Next Generation

Some foundations are faced with an interesting dilemma when they decide to bring a new generation on board — figuring out how to make room for them at the table. One option is to add seats, but eventually this can become unwieldy. Another is for some senior generation members to "retire" from the board. While some may welcome the chance to step back from their foundation work load or to work on their personal philanthropic interests, others love their roles and aren't ready to give them up. If you are a new foundation, this discussion may seem premature. But thinking ahead about how you might handle a growing, multi-generation board down the road can make the transition easier when the time comes.

Alice Buhl outlined a number of possibilities for including the next generation in "Passing the Baton: Generations Sharing Leadership," (an NCFP Passages issues paper). Here are a few suggested models:

- **Rotate seats.** If the board has permanent seats for the senior generation and a few that next gen members fill in rotation, it could decide that the senior members will rotate off too, giving them the option to serve again in the future.
- **Plan for leadership transition.** If the foundation rotates officers, next gen board members could assume the roles of those who are rotating out of their seats while the senior generation holds on to the other seats on the board. One foundation had next gen members hold titles such as treasurer-elect or chair-elect and shadow the senior member in that office for a year or two to make the leadership transition gradual.
- **Establish an emeritus title.** Some boards set an age at which a family board member becomes emeritus, no longer holding a board seat but still having certain privileges. Term limits are a good idea anyway since lifetime appointments can cause problems when a senior member's health or mental acuity makes serving on the board difficult, but the senior is unwilling to step off the board.
- **Create a Senior Counsel** with privileges of emeritus members, but provide each member with the chance to meet regularly with other senior members. In this case, the Senior Counsel could have an allocation of funds with which to make grants. This lets the seniors fund a program dear to their hearts but not of much interest to the younger generation.

Emeritus status can include a number of benefits such as:

- A fixed discretionary amount per year or a set lifetime gift amount to be given at any time;
- An invitation to attend board meetings as a resource (without vote);
- Opportunity to participate in family discussions about the direction and purpose of the foundation;
- Regular information about what's happening at the foundation;
- A role as a mentor to next generation members.

How to Raise **a Generous Child**

Excerpted from: *Generous Genes: Raising Caring Kids in a Digital Age* by Susan Crites Price, (2015, Majestic Oak Press)

Every family hopes to raise children who are generous, not kids who grow up with a sense of entitlement. Regardless of whether you want them to carry on the family's philanthropy someday, you still want to raise them to be caring adults who will have fulfilling lives with a sense of purpose. That work should start when they are toddlers.

The job has changed in recent years, due in part to technology. We used to talk about teaching kids to share their time, talent, and treasure. Now there is a fourth T—ties. Today's kids literally have the Internet in the palms of their hands thanks to smart phones and tablets. They can be connected to friends or to people around the globe who are trying to change the world.

The Internet has in some ways removed parents as the middlemen for their children's philanthropy. Kids can learn about causes, share their favorites with others, raise money, find volunteer opportunities, play games that teach social good, and advocate for change through online petitions. They can text a donation on their mobile phone or ask all the friends in their social network to sponsor them in a walk to aid the homeless.

With so many options, children can be both inspired and confused about giving. That's why parents need to be their children's generosity coaches. Your coaching role will change over time. For example, with young children—toddlers through early elementary school—you'll typically volunteer together. When they are tweens and teens, they usually want to volunteer with their friends—although they might still enjoy an occasional family volunteer outing, especially if it's a long-standing tradition such as helping prepare a Thanksgiving meal at a soup kitchen. But no matter what the age or stage of your child, you have a role to play in encouraging, providing inspiration and just keeping the conversation going.

Parents aren't the only family members who can help raise giving children. Grandparents can share stories of who helped them when they were growing up, how they help others, and what causes they are passionate about. They also can provide support, such as offering to match donations their grandchildren make from their allowances. When grandparents, aunts, uncles or other relatives live nearby, you can invite them to join your family's volunteering projects. Grandparents also might enjoy volunteering with their grandchildren alone, creating a special bond over a shared experience.

Seven Keys to **Generosity Coaching**

- **Start young.** The earlier you start, the easier giving will become a habit. This doesn't mean that, if your child is a teenager, it's too late to start. It may be harder to get their attention, but it's still worth the effort.
- **Be a role model.** Do your kids know about the volunteering and giving you did as child or do now? Do you tell them about the organizations you donate money to and how you decide among the many that ask you to donate? How you handle giving can help them make their own philanthropic decisions.
- Help them **find their passions** but let them decide. Kids might do a volunteer project you enlist them for once in a while. But they will be much more engaged if it's something they feel passionate about.
- **Support their use of the Internet** as a tool for philanthropy, but not as a substitute for giving of themselves up close and personal.
- Don't underestimate your children. Even very young children are capable of helping—and should be expected to do so.
- **Look for teachable moments.** Read books or see movies together that have a giving theme and discuss them afterward. Devote dinner conversations or long cars rides to questions like "What kind thing did you do today?" or "If you had $1,000 to give to charity, what would you give it to?" And when you go to a children's museum, zoo or other favorite place run by a nonprofit, explain that it's there for all to enjoy because people donate time and money to support it.
- **Teach your children about money.** Financial literacy is important for their future, both for their personal well-being as well as their ability to be good stewards of the family's philanthropy. Give them an allowance starting around age 5 or 6, and let them have some freedom to decide how to use it. Some parents require the allowance to be divided into three funds—sharing, saving, and spending. Don't tie it to chores. Kids should have to do chores as part of their responsibility to the family. If they don't do them, you can take away other privileges, but not the allowance; otherwise you lose it as a money-teaching tool.

Additional Resources on Engaging the Next Generation

21/64 is a nonprofit consulting firm created by the Andrea and Charles Bronfman Philanthropies that specializes in next generation and multi-generation philanthropy. The organization has developed several tools to help generations work together more effectively. (www.2164.net)

The Foundation Center has a publication called "Scanning the Landscape of Youth Philanthropy: Observations and Recommendations for Strengthening a Growing Field." The publication is an in-depth examination of the state of youth grantmaking. Download a copy at http://foundationcenter.org/gainknowledge/research/pdf/youth_philanthropy_2014.pdf. ■

CARRYING YOUR **WORK FORWARD**

Assessment, **Renewal**, and the **Healthy** Family Foundation

BY VIRGINIA ESPOSITO AND PETER PANEPENTO

Much like starting a business, creating a new family foundation summons enthusiasm and excitement in its founders that is both inspiring and difficult to sustain.

During the early months and years of your work, you and your family will be buoyed by seeing your first rounds of grants touching lives and impacting your community. Your heart will be warmed by engaging your children in philanthropy and bringing distant siblings together around shared interests. You will experience optimism for what your foundation can accomplish.

Over time, though, a routine may set in. You will be making meaningful grants but might begin to wonder if an end to root problems is possible. No matter how good your intentions, your family will not always agree on how to best achieve your philanthropic goals — and, indeed, there may be tension.

Philanthropy is messy work. We tackle problems that are difficult to solve and our resources — while significant — are often not enough to achieve change on their own.

But when the glow of your new undertaking starts to fade, it's important to remember that your work is making a difference. Even more important, though, is the need to think about how you can sustain your energy and enthusiasm for the work — and continually strive to improve.

Thankfully, as the field of family philanthropy has evolved, so, too has our understanding of how to carry our work forward — and how to ensure that this work is having an impact.

By creating systems for assessing our work — and the impact of that work on our grantees and ultimately the people we serve — we can provide ourselves with opportunities to learn and grow. Through these processes, we can also find opportunities to renew our energy and new approaches to push our work forward and achieve even greater results.

Part I: **Assessment**

Foundations are unlike any other type of organization. Unlike businesses, they don't exist to make a profit. Unlike government, their leaders are not elected, nor do they collect taxes or fees. Unlike nonprofits, they don't typically engage in the direct service or advocacy work that's needed to bring change — instead, they support other nonprofits to help achieve the donor's vision.

While we have clear metrics for gauging success for these other entities — profits and revenues, election results and balanced budgets, money raised and lives affected — foundations operate under a different set of conditions. As a result, foundations face unique challenges when they attempt to assess the impact of their work.

But while your family foundation isn't ruled by the same market forces that helped your family accumulate its wealth, you will undoubtedly want to find out whether your work is making a difference and whether your organization is operating efficiently. To do that, you will need to collect data and information to help refine your practices and improve your results.

The challenge is figuring out what to measure — and determining how to use the information you collect to improve and grow as a family foundation.

Unfortunately, there is no one set of tools to help foundations assess their impact. It might seem cliche, but foundations are like snowflakes. Just as each family is different, so, too, is each family foundation. Each has its own mission, resources, and approach. And, because of this, it's virtually impossible to suggest a uniform set of metrics for family foundations that will accurately assess their effectiveness and impact.

As a result, your family will have to develop its own system for assessing its work.

The good news is that the field is becoming increasingly aware of and adept at assessing impact. The National Center for Family Philanthropy, based on the research that gave the field *Generations of Giving*, has developed Pursuit of Excellence, the only comprehensive self-assessment process that includes both family and board competencies. (See Box on page 268.)

In addition, groups like the Center for Effective Philanthropy and Grantmakers for Effective Organizations have made assessment and impact their mission. And discussions and case studies about assessment are front and center at gatherings hosted by the National Center for Family Philanthropy and other philanthropic support organizations.

Pursuit of Excellence Board **Self-Assessment Tool**

NCFP's Pursuit of Excellence Board Self-Assessment Tool is designed to help family foundation boards understand their current performance as they strive for greater effectiveness. POE walks boards through a powerful self-assessment process to quickly pinpoint areas of shared interest for the group. Unlike other board self-assessment tools, POE focuses on the family-specific aspects of governing and managing a foundation. POE is designed to:

- **Quickly assess strengths and weaknesses:** Board members complete a 15-minute questionnaire to review current practices in grantmaking strategy, governance, and other family-specific aspects of managing a foundation.
- **Identify areas of shared interest and concern:** Based on responses to the assessment tool from your board members (and staff), you'll receive a comprehensive report providing instant insight into your foundation's current strengths and weaknesses, and areas where perceptions of effectiveness may differ.
- **Create an action plan for moving forward:** Reviewing the results of your POE Assessment Report will allow you to identify areas needing improvement or a new approach. You'll create a customized action plan for moving forward, with special access to the examples and practices of other family foundations that have faced similar challenges.

To learn more, visit www.ncfp.org or contact 202.293.3424.

As you dig into this topic, it's important to remember that assessment isn't about nitpicking what's wrong or finding fault in the work of your staff, board, or grantees. Instead, it's an opportunity to identify what's working and to learn lessons that will help you refine your work moving forward. Ideally, you will use these lessons to help improve your approach and results, help your grantees get more traction from their work, and provide insights that can help other foundations become more effective with their own efforts to make change.

Assessment also gives you the freedom to take risks. Many families start foundations because they have a desire to help change the world by using their capital to approach problems in new ways. But to take these new approaches, we need to take chances — and to understand that some of what we try will not work.

Through assessment, we can identify what's working and what isn't — and use what we learn, including our mistakes and failures, to adapt and grow.

"Rather than throw out a theory of change or a model for addressing a specific issue when it does not give us the desired results, we should work with grantees to dissect it, understand the flaws, figure out the components of the model that do and don't work," writes Katherine Lorenz, and NCFP Fellow and the President of the Cynthia and George Mitchell Foundation. "Get curious about why a program or grant doesn't work — and then take those lessons forward in creating an improved model."

As we've noted, there is no one way to set up systems that answer these important questions. But below are some suggestions about how you can assess your family's work through these lenses — with an eye toward keeping your philanthropy fresh, rewarding, and impactful.

For more discussions of learning from mistakes and taking risks, as well as sample board and staff performance assessment tools, see Splendid Legacy Online at www.splendidlegacy.org.

This process requires us to think about assessment through two lenses — internal and external.

Your internal lenses focus on how your foundation operates. How effective is your leadership and staff? Is the family providing appropriate guidance? Is your board maximizing its expertise to help your foundation achieve results?

Your external lenses focus on the outcomes of your foundation's work. Are individual grants achieving their goals? Are you working with organizations that are equipped to make a difference? Is your grantmaking achieving its desired results?

Internal Assessments

Effective assessment begins by looking inward. While many foundations understandably spend a lot of time finding ways to assess the impact of their grantmaking, it's also vitally important to take stock of their internal operations.

As you attempt to gain an understanding of our internal effectiveness, your family will likely consider assessing the following aspects of its operations:

- Your family
- Your board
- Your leadership and staff

Assessing family participation

You chose to create a family foundation, in part, because you have a vision for how you'd like to involve your family in your philanthropy. As your foundation gets off the ground — and, indeed, as it matures and grows — it may be important to you to assess whether that vision is actually playing out.

If, for example, you created a foundation in part to provide a place for family discussions on issues of shared importance, you might choose to assess how your family communicates about its philanthropy to determine whether you have created a culture that helps advance that goal. After all, this culture — and the rules you may set in place to codify that culture — will influence both how your family relates as well as how you conduct your philanthropy. But the critical question is how your family is working to achieve the greatest possible impact with your philanthropy.

If you are looking to build a legacy of giving that spans generations, you might also want to assess your foundation's work in engaging its younger generations. Do younger members of your family feel motivated to become engaged in your philanthropy? Are there mechanisms to facilitate the involvement of future generations?

As your foundation evolves — and your family changes — so, too, will the process of assessing your family's involvement.

But by taking the time to assess your family's involvement — and solicit your family members for their input — you will be setting a culture for growth and innovation. You will also be creating a sense of collective ownership for your foundation — one in which all interested family members feel engaged and invested in the success of their family's charitable endeavors.

For specific examples of how families have assessed family involvement, see Splendid Legacy Online at www.splendidlegacy.org.

Board assessment

If your foundation strives to retain an intimate "kitchen table" atmosphere, it might feel unnatural to create a formal assessment process. But if you are serious about achieving your mission, it's important to think about how you will evaluate your board's performance — no matter how small you are.

Like other forms of assessment, it will work best if you approach it as an instructive rather than punitive process.

Your assessment of your board begins with having a set of established guidelines or expectations. (See Chapter XX on creating board position descriptions and expectations).

But your assessment will extend far beyond whether individual board members are living up to their stated duties. You will also want to assess how well your board understands and carries out your family's mission — and have regular conversations with your board about how it interprets that mission. Your foundation is more likely to be successful if your board has a shared commitment to a common mission. In turn, your board members will feel more closely aligned to your work — and are more likely to become ambassadors and advocates for your family and its philanthropy.

Board members also need to be aware of their fiduciary and legal responsibilities as nonprofit trustees. As a result, it will be important to find ways to periodically assess their understanding of your foundation's financials and operations — and use that assessment to identify opportunities for ongoing education and training.

Finally, consider carefully how your board communicates — and how that communication affects board members' relationships with each other, but also with your family and your professional staff.

It's likely that as you assess these different elements of board participation, you'll uncover ways to help your board members become more effective and help them feel more fulfilled in their roles.

Some Ways to Think About Board Effectiveness

Board Organization. Does the board operate as a unit? Does the board meet according to its policies, and engage in orderly meetings? Are officer responsibilities clear and do officers fulfill them? Do committees operate effectively and contribute to board success?

Community Representation. How does the board involve the community it serves? Does the board have strategies for seeking input from diverse interests?

Policy Direction. Do board members understand foundation's mission, policies and programs? What issues have most occupied the board's time and attention during the past year? Were these closely tied to the mission and goals of the institution?

Board — Executive Director Relations. Do the board and executive director/administrator have a respectful partnership and open communication? Are their roles clearly defined?

Foundation Operations. Does the board have clear policies related to fiscal affairs, asset management, and human resources? Does it have clear standards and processes for grantmaking? Does the board have and adhere to clear protocols for communicating with staff?

Board Behavior. Does the board behavior set a positive tone for the institution? Do board members work well together as a team? Are different perspectives encouraged and incorporated into decisionmaking? Does the board have and adhere to a code of ethics?

Advocacy. Do board members help portray the foundation in its best light? Do they attend foundation events? Do they help promote the image of the foundation in the community?

Board Education. Are new board members well oriented? Are all board members encouraged and supported in engaging in ongoing learning?

SOURCE: Adapted from the Association of Governing Boards of Colleges and Universities

CEO and **Staff Assessment**

As you assess your family and board's work with your foundation, you will also want to review your CEO (or other top paid staff person) and encourage your top management to review members of their staff.

The assessment of your CEO will often be conducted by your board, which needs to know how effectively the CEO is leading the process to achieve them. Ideally, the review is focused on progress toward goals, not on behavior. (See Managing Your Family Foundation for advice on creating a review process for your CEO.)

Why Should You Conduct **Performance Reviews?**

Boards owe it to their CEOs to perform some type of regular performance review. Here are some of the key reasons:

- **Responsibility:** One of the key responsibilities of nonprofit boards is hiring chief executives and assessing their performance.
- **Clarity:** it provides regular opportunities for both the board and CEO to get clear about expectations.
- **Focus:** Reviews ensure that the CEO is focused on the board's priorities and the foundation's goals. That also requires the board setting some goals for the foundation, which is another good practice.
- **Feedback:** Most CEOs want and need feedback. The process also gives CEOs an opportunity to raise questions, request help, and give the board feedback in return.
- **Guidance:** Reviews serve as an early warning system. CEOs would rather hear early if something isn't working well, so they can adjust before things go off the track.
- **Unity:** Reviews force the board to speak with one voice to the CEO. When there is an objective process focused on achievement of goals, individual board members will be less likely to provide conflicting feedback and pull the CEO in different directions regarding priorities.
- **Development:** The review offers an opportunity for a CEO and board to agree on a professional development plan, something every employee can benefit from, so they can stay fresh and grow in their position.
- **Learning:** Reviews help the board to learn more about what the CEO's job entails. Board members know firsthand how well the CEO works with the board, but have less knowledge of the management and grantmaking responsibilities on their CEO's shoulders.
- **Legal:** In the event the board has to terminate the CEO, written performance reviews help the foundation prevent or defend against a wrongful termination lawsuit.

— *Susan Crites Price*

External

Your family will also want to assess the outcomes of its grantmaking and thought leadership.

As we've already noted, there is no simple formula for assessing impact. Much of how you choose to assess your external work will be based on your family's goals and mission. A small family fund that is working on education in a specific geographic area is going to take a very different approach to assessment than a large-scale foundation that is looking to eradicate disease in Africa.

But by asking some basic questions, you can begin to develop a system that makes sense for your foundation.

These questions include:

How do we define success?

Success is defined differently for different foundations. And, in some cases, it can be difficult to quantify that success.

Many grantmakers work with their grantees to assess their impact by creating benchmarks or goals that help to quantify their performance.

Suppose your family is working to reduce hunger among impoverished children in your community. You and a grantee, a local preschool for underprivileged children, decide to set a goal to provide balanced breakfasts and lunches to 100 needy children each day. You agree that at the end of the first six months you will sit down together and look at the number of children served, the cost of the program to date, and the grantee's experiences thus far. You might discover that while the program is providing 100 breakfasts a day, the program is running consistently over-budget on lunches because demand increases in the afternoon.

Although your grantee feels that the program has been successful, there are concerns about the feasibility of the program succeeding in the long term. Based on this experience, you and the grantee discuss strategies for adapting the program and funding to fit the actual needs of the community and refocus your goals according to those realities and agree on a new set of goals for the next reporting period. You may also choose to better understand the ultimate impact — how well-nourished children thrive and perform better than they did without the meals program.

By assessing the program around a shared definition of success, you and the grantee are able to identify what's working and what needs to be adjusted.

How can I increase my grantees' chances for success?

Foundations often hold an outsized role in their relationships with individual grantees. Because foundations are the ones that are choosing where to invest, there is a natural power dynamic that sometimes makes it difficult for us to place ourselves in the shoes of our grantees. Likewise, many grantees are leery to discuss their barriers to success lest they seem unworthy of a foundation's philanthropy.

As you build your own foundation, you will likely confront this dynamic. Ideally, you will work to overcome it by encouraging open conversations and building trust with grantees.

Cultivating a mutually respectful and honest avenue of communication can help ensure that your grants are both effective for the nonprofit and meaningful and fulfilling to your family.

Are we achieving our mission?

Effective assessment begins with knowing which outcomes you hope to achieve with your work. And these outcomes are also closely tied with our missions.

In addition to attempting to measure the impact of individual grants and programs, many foundations are looking to assess progress toward their missions.

This can be a complicated process — one that involves assessing not only your financial impact, but also the impact of our work in changing minds and attitudes, fostering collaboration, leveraging our relationships, and developing new approaches.

But by asking difficult questions and attempting to assess our work from myriad angles, we can gain insights that will inform our work — and give us energy to try new approaches and take bigger risks.

For additional articles and examples of family foundation assessment policies and practices, see Splendid Legacy Online at www.splendidlegacy.org.

David Grant, the former president and CEO of the Geraldine R. Dodge Foundation and author of *The Social Profit Handbook*, believes a strong assessment system is an essential element of a strong foundation.

In his book, Grant writes that assessment should:

Come before the work, not after it

Grant likens foundations to athletic coaches and teachers of performing arts.

Rather than grading grantees for their performance once work is finalized, foundations should be working with grantees throughout the process to help provide them with feedback and help.

"Their efforts were focused on upcoming performances with clear criteria for success, and they gave timely feedback to help us succeed," Grant writes of coaches and performing arts teachers. "We can take our lead from them if we consider ourselves performers in pursuit of impact in our communities. It remains for us to be clear about what success will look like so we can get and give the feedback we need along the way."

Be qualitative as well as quantitative

While metrics are important, it's also important to note that the work of grantees is also an art.

As a result, assessment should account for both what can be measured objectively and what can be observed subjectively.

"For me, the best tool is the qualitative assessment rubric, a simple matrix with criteria for success on one axis (picture them running down the left-hand column) and levels of success on the other (picture them running along the top row)," Grant writes. "We now have a format for describing together what we are aiming for, in the areas that matter most to us."

Be designed locally

"Many foundations try to create an assessment tool to measure and compare social benefits across a portfolio of grants," Grant writes. "I think this well-intended effort does not help us very much in the end.

"It reduces us to common measures such as 'numbers served,' without asking how those people were served, and what difference it made in their lives. Qualitative assessment, as noted above, is about excellence, and excellence is best described by the people closest to the work and to its context.

"A locally-designed rubric can literally hold, as in contain, an ongoing conversation about good work between nonprofit staffs and their boards, between nonprofits and the people they exist to serve, and between nonprofits and their funders."

Part II: **Renewal**

"Foundations change, like it or not. The issue is whether they will change by chance or for specific reasons. The latter comes about only with conscious effort."

Frederick deWolfe Bolman

By now, you have come to realize that governing and managing a family foundation is as much art, values, and even feelings as it is science. It doesn't even have to be particularly difficult science. Jaylee Mead, co-founder of the Gilbert and Jaylee Mead Foundation and former Research Astronomer at the NASA/Goddard Space Flight Center, once remarked that creating that foundation wasn't "rocket science."

But that doesn't mean it's easy. In fact, it is highly unlikely that you and your family will ever find the permanent, perfect strategy for achieving your philanthropic goals. Even your goals may change over time, as do the families that create and oversee them. This is as true for those family foundations set up with intentionally limited lifespans as it is for those are created to exist in perpetuity.

Given the likelihood of an unpredictable evolution, unique to each family foundation, what might be the surest approach to resolving the consequent challenges to effective, satisfying, and harmonic grant-making?

A management school professor made a point years ago that offers a profound, yet simple, clarity and insight. "It is easier for a C+ organization to become a B+ organization than it is for a B+ organization to stay that way."

Improvement is usually an easier endeavor than ensuring ongoing vitality. How does the boldness you summoned up for taking risks and solving problems support you once you've experienced success? How do you resist going into "protect mode" — trying too hard to hold onto what you have accomplished? How do families who have achieved excellence in giving maintain the quality of that giving over time? How do they continue to meet the high standards you've set for management, finance, communications, and community relationships?

How does the "B+" or even the "A+" organization stay that way, vigorously committed to the revitalizing promise of renewal? And what can members of newer family foundations learn from those who have successfully been meeting these challenges?

The benefits of reflection and renewal

Renewal offers the chance to anticipate change. And anticipation often allows you to operate from a position of strength. What you are trying to maintain — what still works for you and other family members — is a critical question. It ranks right up there with determining what might be on the horizon that might adversely affect your foundation's existing strengths.

Foundations whose trustees and/or staff fear that any revitalization exercise might result in losing something precious are well-advised to wrestle with these questions:

- What about our foundation is most important and to whom — board members, staff, perhaps even key members of our 'public' (grantees, the press, other philanthropic families, etc.)?

- What are our responsibilities and roles in directing change?
- What do we want our foundation to be or continue to be in the future?
- Are our family foundation values sustaining us as we move forward?

Struggling with these questions allows you and your family to think objectively about how circumstances might affect the wellbeing of the foundation and those it serves. If family boards wait to respond to change, they can be overwhelmed by feelings for the people directly involved. They might be tempted to see any change in policy less in terms of how the board/foundation could benefit and more as a reaction to the emotions generated by the moment.

For example, the engagement of an especially-loved daughter might result in an impulsive change in a long-standing policy against spouses serving on the board. The consequences for future family members might not be factored into that loving but spontaneous gesture. Are you prepared to do for all what you have done for one? The earlier you consider possible changes in circumstances, the more likely you are to make your decision based on principles, not personalities.

Finally, planned renewal is critical to sustained grantmaking success. It allows you to *consider new practices that hold promise for advancing your mission in ways you might not have imagined*. It opens opportunities to engage new voices in your work as stewards of the foundation. Such opportunities expand the base of knowledge and ideas that either confirm the wisdom of the philanthropic path you are on, or to identify areas for improvement and suggest ways you can improve or re-shape your giving areas or strategies.

Opportunities to re-imagine

Staying fresh and vital for a new day doesn't have to be expensive or complicated. While strategic planning that seeks to put everything on the table can be time-consuming and even pricey, it holds promise for yielding long-term benefits. The work of planning builds ownership of philanthropic work among family, board, and staff members — and even the community your foundation serves.

Timing the re-imagining, renewing, and revitalizing processes can be critical. This process may be particularly effective when you know you are facing the retirement of a key board leader, when you know you will want to open board slots to a new generation, or when a change in executive staff leadership is on the horizon.

Start with assessment

Once the family has committed to renewal, the process should begin with the assessment of philanthropic opportunities addressed earlier in this chapter. Your first step is to gather information necessary to determine how you are doing. What does the environment for grantmaking look like now and in the foreseeable future? Is the foundation having the results/impact it hoped for? Could a grantee perception study or board self-assessment be helpful? Foundations that take the time to regularly assess themselves — their grants, their programs, the performance of staff, and the work of their boards —gain critical information for charting the foundation's future.

Goals and expectations

As mentioned in the chapter on Mission (see page 26), knowing where you're going is the best way to ensure you arrive at the right destination. So, create family-agreed philanthropic goals. Write them down and hold yourself to them. As a result, your family will be better positioned to track the foundation's progress and adjust as needed for maintaining or improving foundation impact, not to mention celebrating them.

Whether your family is just getting started or well along the road to impactful grantmaking, begin a conversation about the goals — all of them — you have for the next year.

Most family foundations have investment goals. But, what about your expectations for each other? A successful board renewal practice is setting and periodically evaluating how the board as a whole and as individuals are performing. Here, as in other realms of assessment, clearly agreed and stated performance expectations are critical. They ensure you are all operating from the same playbook and have a shared sense of vision and accomplishment.

Becoming a Learning Organization

Most of us feel lucky just to get the work done, particularly if the foundation relies on volunteer management and board service. As the previous section hints, time invested in reflection and planning that engages all staff and board members actually helps family foundations be more efficient in directing the energies of both groups. An important corollary for boards is to schedule time (perhaps 10-15 minutes) at each meeting to discuss how the meeting went, what members are most proud of as trustees, whether and how the board might improve its oversight work (while respecting appropriate staff roles). You might only have time for a January conversation about what you would like to accomplish in the year and a December discussion on how you did. But these conversations are indeed valuable — and you will likely learn that giving them more priority and developing ever more thoughtful annual reviews and assessment will help your foundation, staff, and board become more effective.

That review can be accomplished by scheduling an annual board retreat. Many families have found that retreats are energizing and powerful experiences. Focus discussion around one or more key aspects of your governance responsibilities and/or the foundation's functioning. And also allow plenty of time for conversation among board members. Small group discussions followed by discussion among all trustees builds trust and unity and strengthens the organization.

Program vitality

Family foundation board and staff members consistently report that it is the work of grantmaking and, specifically, the interaction with grantees, that keeps them engaged and energized. One way to heighten as well as sustain the experience is to schedule periodic site visits, perhaps including one or more next generation family members along for the experience. Seeing the work of grantmaking on the ground is truly inspiring for both veteran and younger members of the foundation's family.

Family foundations report tremendous benefits in regularly scheduling guest speakers for foundation and family events. Similarly, there is great value in establishing a community advisory panel(s) to provide periodic updates on critical program and community issues. The panel might include one or more current (or even past) grantees you admire, women and men who bring their passion as well as their perspective and on-the-ground experience in service to the work you do to increase the impact of your grantmaking.

Celebrate a milestone

An increasing number of family foundations have marked important anniversaries as a way to celebrate what has been and what will be. Family foundations may mark their 10th or 100th year of service, the founder's birthday, or the anniversary and accomplishments of a major grants program. Each is a special opportunity to take stock, reflect, take action, and appreciate the rare privilege of being involved in a family endeavor on behalf of the public good. There are many examples of how family foundations marked their special occasions so check out one or two in your area or state — and be inspired!

Charting Past and Future Paths: **The Needmor Fund**

The Needmor Fund is a family foundation established in 1956 in Toledo, Ohio, by Duane and Virginia Secor Stranahan. In 1996, the fund celebrated 40 years of giving as a family philanthropy by hosting a weekend retreat for members of the family, current and former staff, and partners in the field who "had a wide ranging perspective to bring to us, and the courage to tell us the truth about foundations and Needmor," explains family member and former board member Molly Stranahan. "We wanted to remember the paths we had traveled, the ways we have changed over the years, and get advice from trusted fellow-journeyors about how we might adapt into the future. We also wanted to introduce the fourth generation (aged ten and under) to Needmor, and to reflect on what we had learned, and what that meant for the future."

Stranahan describes the retreat as a mix of meaningful group activities, presentations from the invited grantees and partners, and family reunion. "There was an inclusive process to incorporate ideas from various family members—one had been creating quilting projects in schools, and she volunteered to bring materials so we could create squares to be put into a commemorative quilt. We also had time for our guests to speak to us from their perspectives, time for storytelling, dancing together, and playtime for the kids."

To help the extended family better understand the history of the Needmor Fund, Stranahan used old board minutes to create a timeline describing "who was in roles of responsibility, total endowment size, grantmaking budget, key shifts in focus and processes, and the dates and locations of past meetings—these things tend to stick in our brains, so that made it easier to get perspective on how we had evolved."

Ten years after the 1996 retreat, Dave Beckwith, the foundation's executive director proposed the idea of creating a special 50th anniversary booklet titled "50 Years, 50 Stories" to celebrate a sampling of achievements of the many and diverse grantees supported by the foundation. "By the time of the 50th, we had expanded our mission to include encouraging other foundations and individuals to support community organizing and values-aligned investing, and our plans centered on using the anniversary of our founding to share stories of our experiences to inspire others."

Individual renewal

"Organizations you have a passion for can eat you alive."

— Family foundation CEO, "Crafting Consensus out of Complexity"

Burnout is a well-documented concern for grantseeking organizations. It's also a common condition among those who are involved with family foundations, where board members often serve for decades and professional staff are often asked to fill multiple roles.

Too often, family foundation boards — especially first and second generation boards — do not provide for time-limited terms, specified rotations, or other defined breaks in board routines. While such breaks may not be feasible in the first one or two generations of your foundation, you might consider other ways to promote individual vitality. Perhaps you could explore the value of a board 'sabbatical' that allows long-serving members some period of time away from oversight responsibilities in order to refresh and renew. For the sake of future generations, consider the benefits (on many levels) of a break between terms. Encourage involvement in nonprofits of personal interest to each board member that do not receive grant funding from your foundation. This is not only a way to keep the board fresh, but may be a strategy for getting family members who do not serve on the board involved in the nonprofit sector — an experience that can shape the way they approach community service.

In a survey of foundation chief executive officers, one-third of interviewees reported taking very little time for themselves. No vacations, no sabbaticals, no personal hobbies or interests. Sadly, nothing. Another third participated in outside activities solely related to their work responsibilities. Only 30% made time for time away, exercise, and quiet time. The consequences of a lack of attention for personal wellbeing and refreshment can be devastating for both the foundation and the staff executive. Have a vacation policy for staff that is part of performance expectations.

With all due respect to Coke, a refreshing soda is but one way to achieve vitality. Individual and institutional renewal is critical to organizations that want to remain consequential, dynamic, and effective. Small scale or large, informal or sophisticated, over the course of one meeting or one year — the active effort to ward off stasis and complacency is an investment in philanthropic excellence. ■

PART V
COMMENCEMENT

THE CURRENCY OF TRUSTEESHIP: TOOLS FOR THE WORK OF GOVERNANCE

BY DAVID DODSON

Alert and visionary family philanthropy is a major asset for communities across America and, increasingly, throughout our needy world. In reflecting with you on the vital work of trusteeship, I hope we can come to appreciate the full value of what we do as leaders and keepers of the family philanthropy flame.

When we talk about our work as trustees, it's important to start by unpacking the meaning of the word "trust". For family trustees, trust comes in a number of forms. And this trust is central to our success.

But before we can explore these forms, I'd like to first step back briefly to talk about the role of trustees.

About 30 years ago, Dick Broholm and Doug Johnson wrote "A Balcony Perspective", which used a lovely analogy to describe the work of trustees. If you think about a dance floor and a balcony, the work of the trustees is not to be on the dance floor doing the dancing, but to be on the balcony, watching the dance, and making sure the choreography is working.

As trustees watch the dance down below, they must pay attention to multiple dimensions of trust — all of which affect the performance of the foundation.

Broholm and Johnson describe three specific forms of trust, each of which are crucial to the success of their performance:

- **Holding trust.** Trustees need to hold in trust the values and assets of the foundation by being guardians of their foundations' assets. Assets, in this case, are both tangible and intangible.
- **Building trust.** Trustees need to build trust, both inside and outside the organization, so that the foundation maintains a healthy and respectful relationship with all who are touched by its activities.
- **Fulfilling trust.** Trustees also have a function of fulfilling trust by ensuring that the organization actually puts its assets to good use in thoughtful service to advance the common good.

Holding Trust

It's easy for us to understand what it means to hold in trust, particularly when it comes to be being a steward of the financial assets of our foundations. Trustees must, above all, ensure that they are properly and effectively managing their foundations' endowments and ensuring that their grantmaking is in alignment with their missions.

But there's also another form of capital that trustees need to think about: philanthropic capital. Jim Joseph, the former president of the Council on Foundations and one of the most respected and knowledgable thinkers in our field, has described five forms of philanthropic capital that we need to think about deploying to get important things done through philanthropy.

The first is social capital, which includes our relationships and networks of influence and how we use these relationships to reach out to and connect disparate groups.

Next is moral capital, or the very noble philanthropic tradition of elevating attention to the gap between the values society holds and the behavior that society exhibits. Foundations have a rich legacy of using moral capital. The Carnegie Foundation has used its moral capital to further our understanding about race in America. The Ford Foundation, Rockefeller, and others have used moral capital on issues such as the environment and hunger. The Gates Foundation and others have used their moral capital on issues related to education. This is an important piece of philanthropic currency.

Foundations also have intellectual capital — or the power and ability to put knowledge into circulation for the benefit of society. There are countless examples of foundations that commission information or get information out in the media so that people are aware of issues and solutions.

They also have reputational capital, which refers to how, over time, they build credibility around issues to the point where, just like E.F. Hutton, when they act, people listen. If managed properly, our foundations have enormous currency.

Finally, foundations have financial capital. Unfortunately, we often focus on our financial capital without taking into account these other forms. So, actually, our balance sheets are a lot bigger than if we only measure our financial assets. As a result, when we talk about trust, we have to look at the intangibles that aren't reflected on our balance sheets.

How does this play out in practice?

When I think about this question, I'm reminded of the example of the Duke Endowment, the venerable foundation in Charlotte, N.C., that was founded in 1924 by James B. Duke.

Mr. Duke, a great industrialist and philanthropist, was very interested in how the intangibles of the foundation could be held and nurtured in perpetuity by his trustees.

More than 90 years ago, he wrote the Duke Endowment's indenture, which spelled out his intentions, his values, his purposes, and what he cared about. The indenture is still considered one of the finest examples of estate law in the world. And it is quite powerful — and quite explicit.

In this document, James B. Duke set down his vision of what he wanted his trustees to do. He told them that he wanted to fund education. He wanted to fund spiritual uplift. He wanted to fund vulnerable children. He wanted to fund health. And he spelled out that he wanted to focus on helping the physical, mental, and spiritual lives of humankind in the area where the Duke Power Company, his major business interest, does its work.

In the indenture, he notes that he could have extended his aid into other missions and geographies, but that he believed that doing so would produce less good because it would be attempting to do too much. Even though the Duke Endowment was created with a large amount of money, he wanted to bound his focus so that these resources could accomplish the most good.

He also wanted to make sure that he kept the trustees accountable to the limits he set.

To this end, he mandated that the indenture be read at least once a year to the assembled trustees.

So, to this day, at the first trustee meeting of every year of the Duke Endowment, the trustees sit down for the reading, out loud, of the 24-page indenture, while a very frighteningly realistic portrait of James B. Duke sits on the wall and sort of glowers at them.

In turn, the Duke Endowment's trustees have a clear picture of what they are holding in trust. Through the annual reading of the indenture, they are reminded of the founder's intentions. As a result, the organization's culture is still very much centered on those intentions. Trustees and staff alike say there is a refrain whenever there is a difficult decision: What would Mr. Duke do?

Mr. Duke has been dead a good, long time. But his values, those intangible purposes, live because he chose not only to write them down but also to read the indenture annually before they start their work. That's a pretty powerful way of holding in trust.

My organization, MDC, has been privileged to work with trustees at a number of foundations to help illuminate the values that guide their passions, and then figure out what issue areas are most calling for attention.

We help them examine their values by exploring their histories and building something called a history timeline, which examines how the foundation, over time, has acted in the context of changing external conditions, and, basically saying, as the world changes, how has the foundation changed?

We also ask them to answer a number of other questions:

- When have we made the wave?
- When have we ridden the wave?
- When have we followed the wave?
- When have we run from the wave?
- When have we sat on the shore and watched the wave drown somebody else?

The answers to these questions provide clues to repeated behavior, or what we call the foundation's institutional DNA. Once that DNA — that tolerance for engagement or risk — is identified, it sends a signal to the trustees. It tells them that these are the things that they need to think about holding in trust and that these are the things they also need to deploy when circumstances change.

As trustees, conversations about history — and how history has been revealed through our foundation's actions — are always revelatory. They help reveal the character of the foundation. Our repeated behavior over time tells us who we are, and, therefore, what we need to value and hold on to and preserve as we continue our work.

Building Trust

Trust in our institutions is eroding at an almost alarming rate.

In 2015, *U.S. News and World Report* reported on a Gallup Poll that showed that Americans' confidence in institutions over the previous two years has been the lowest since Gallup began measuring this annual shift in 1993.

According to this poll, confidence is down across the board. Consider the following:

- 28% of Americans have confidence in banks — down from 40% in 1993.
- 21% have confidence in big business — down from 24%.
- 24% have confidence in organized labor, down from 26%.
- 52% of Americans have confidence in the police — down from 57% in 2013
- 42% express confidence in organized religion, as opposed to 55% in 1993.

Americans continue to show lower levels of confidence in most of the major institutions central to U.S. society, with only the military and small business getting ratings in 2015 that are above their historical averages.

We tended to be much more confident about U.S. institutions when the economy was strong in the '80s through the early 2000s, and though we're now more upbeat about the economy, we are not yet convinced that the quality and trustworthiness of our institutions remains as great.

These are sobering numbers — and foundations are not immune to this erosion of trust. That's particularly true when many foundations can be seen as mysterious, opaque, privileged, and distant.

To counteract this, foundations need to be trustworthy in all respects.

But how do we build the social capital that will allow us to be trustworthy in all respects, particularly in a society that tends to be skeptical about institutions?

Ruth Shack, the retired president and CEO of the Dade Community Foundation, once offered a fabulous answer during a conversation with me and NCFP president Ginny Esposito.

"Our job is to know our communities intimately and to respond with affection," she said.

I think that is a fabulous definition. If you're going to know your community intimately, you're going to engage in building relationships of trust, so that you can know and be known.

So, how can this happen?

For many years, I was a trustee of the Mary Reynolds Babcock Foundation. Once a year, we would take very intensive site visits to communities across the South. These visits provided trustees with an opportunity experience life in worlds that were much different than what we encountered in our daily experiences.

We would immerse ourselves in communities in Appalachia or the Mississippi Delta — and gather first-hand knowledge of what was happening in our grantee communities. By doing so, we were getting to know our communities intimately.

Those encounters did an awful lot to build social trust connections. It made us seem real and it made the grantee community seem real. I think those visits help us build trust between the foundation and the communities we were working with. It also showed that the trustees are human beings — not Wizard of Oz people behind a curtain who make distant decisions that affect people's lives.

These visits were very powerful. We were building social relationships, using social capital, and building reputational capital to show that we were, indeed, trustworthy in all respects.

Fulfilling Trust

Trusteeship is a noble vocation.

In the wonderful book Alphabet of Grace, the theologian Frederick Buechner, defines your vocation is "the place where the world's deep need and your great joy intersect."

That is really a remarkable statement. Finding that intersection of great joy and deep need is the territory where we actually fulfill trust as trustees.

The challenge is finding that spot. And to find and live in that spot is where deploying all the forms of social capital come into play.

Fulfilling trust involves a healthy dose of moral imagination, because it involves the intuitive ability to perceive where we can apply our values in the midst of a chaotic world.

The leads us to a very important question: How do we deploy all of these forms of capital so we can actually play the role we are meant to play in fulfilling trust and finding this virtual intersection between what makes us joyful and what responds to the world's need?

For inspiration, I'd like to point to the story of Julius Rosenwald, the man who, as president of Sears Roebuck Company, built the largest retail operation of its kind.

He was deeply devout, and he was, as an immigrant, very concerned about people who didn't have a chance to make it in society. He also got to know Booker T. Washington and, as a result of their relationship, Rosenwald became deeply interested in the challenges of providing an adequate education to African American children in the South.

Recognizing that a significant number of people in the South were not getting the benefit of education, Rosenwald's moral antennae told him that there was a problem that he should try to solve.

He creatively deployed all forms of philanthropic capital to address these challenges — and his thinking ultimately led to the creation of 5,000 community schools for African Americans across the South.

To do this, he used his intellectual capital to ask himself how he could help solve this problem.

At the time, his company made and sold pre-fab houses. Customers could buy a kit and build the homes themselves. Knowing that his company had the capabilities to do this, he thought of how he could use this resource to create pre-fab schools that could be shipped to communities across the country.

But Rosenwald stopped himself — asking whether communities would feel invested in supporting pre-fab schools

He reached out to Booker T. Washington for advice in answering this question. Washington said, quite simply, that you'll get a better outcome if you teach a person to fish rather than simply giving him or her a fish.

As he thought about Washington's advice, Rosenwald decided that he would leverage his financial capital in a creative way. He decided that he would offer to pay one-third of the cost for new schools — provided that the communities in which they were built offered one-third and the local school districts would provide the balance and maintain them in perpetuity.

It was an offer that was too good to refuse.

The poor, largely African-American communities where Rosenwald offered the deal worked diligently to raise the money for their third. They used their social networks. They began to do bake sales, harvest crops, slaughter hogs. They did everything they could to raise the money, and then they went to work.

What's more, the 5,000 schools across the South were all built by hand by the people whom they were intended to benefit.

Meanwhile, the school districts — which didn't want to fund building new schools — decided that the deal was so good that they would agree to maintain these schools. The segregationist governments in these communities decided to invest in what they wouldn't invest before, and the social relationships began to shift.

Rosenwald masterfully used of all his forms of capital. He could have simply tried to address the problem by writing a check, but it wouldn't have kind of helped society reinvent itself in this powerful way. And it certainly would not have created what today is an extraordinary legacy. Today, if you go into a community where there's a Rosenwald school, these places have been so venerated that they've been rehabilitated into community centers all over the South.

Rosenwald provides a wonderful example — and there are countless other examples today of foundations that are working creatively to take on unwieldy, unpopular, often inconvenient, issues, with the full battery of philanthropic capital. These exemplary foundations are places where the trustees are not content to rest on a legacy, but are really pushing to fulfill trust in very challenging circumstances.

The work of fulfilling trust is really the test of our relevance as trustees and of our resourcefulness.

Fulfilling trust requires that we be faithful, that we be discerning and bold with the currency of trusteeship, and that we skillfully deploy all these forms of capital to get our foundations to the place where our great joy intersects with the world's great need.

The **Trustee** Prayer

Sir Francis Drake, the explorer, created a prayer that described the perils and the promise of the kind of forward voyage that I think we're talking about in true trusteeship in a very memorable way.

While the prayer wasn't written specifically for trustees, I think it's appropriate to co-opt it as the Trustee Prayer — since its lessons apply so aptly to our work as trustees.

It goes like this:

> *Disturb us, Lord, when we are too pleased with ourselves, when our dreams have come true because we have dreamed too little, when we arrive safely because we sailed too close to the shore.*
>
> *Disturb us, Lord, when with the abundances of the things we posses, we have lost our thirst for the waters of life. Having fallen in love with life, we have ceased to dream of eternity, and in our efforts to build a new earth, we have allowed our vision of a new Heaven to dim.*
>
> *Disturb us, Lord, to dare more boldly, to venture on wilder seas where storms will show your mastery, where losing sight of land, we shall find the stars.*
>
> *We ask you to push back the horizons of our hopes, and to push back the future in strength, courage, hope, and love.*

Our voyage is to sail to that place where need and joy intersect, with these as our tools and our compass.

I want to wish you all success on your voyage, as you refine the work of holding in trust, building trust, and fulfilling trust that you are uniquely deployed and assigned to carry out. ■

THE SPIRIT OF PHILANTHROPY

And the Soul of Those Who Manage It

PRESENTED TO THE COUNCIL ON FOUNDATIONS
ATLANTA, GEORGIA
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BY PAUL YLVISAKER

"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 consideration so characteristically missing in the worlds of business and politics."

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 à la 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 understanding.

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 microworld 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.

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.

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.

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 back page 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 naiveté so drained that you don't let an applicant finish a presentation without 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.” ■

PART VI
APPENDICES

GLOSSARY

501(c)(3)
Section of the Internal Revenue Code that designates an organization as charitable and tax-exempt. Organizations qualifying under this section include religious, educational, charitable, amateur athletic, scientific or literary groups, organizations testing for public safety or organizations involved in prevention of cruelty to children or animals. Most organizations seeking foundation or corporate contributions secure a section 501(c)(3) classification from the Internal Revenue Service (IRS). Note: the tax code sets forth a list of sections—501(c)(4-26)—to identify other nonprofit organizations whose function is not solely charitable (e.g., professional or veterans' organizations, chambers of commerce, fraternal societies, etc.)

509(a)(1), (2), and (3)
Section of the Internal Revenue Code that defines public charities (as opposed to private foundations). A nonprofit 501(c)(3) organization must have a 509(a), (2), or (3) in order to be defined and designated a public charity. (See Public Support Test.)

501(c)(4)
Section of the Internal Revenue Code section that provides for the exemption of two very different types of organizations with their own distinct qualification requirements. They are:

- Social welfare organizations: Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, and
- Local associations of employees, the membership of which is limited to the employees of a designated person(s) in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational or recreational purposes.

509(a)
Section of the tax code that defines public charities (as opposed to private foundations). A 501(c)(3) organization must also have a 509(a) designation to further define the agency as a public charity. (See Public Support Test.)

Adjunct (Associate) Board
An adjunct board is often used for involving next generation and/or community members in the work of the foundation.

Administrative Expenses
The costs of running a foundation; typically include salaries and benefits, legal and professional fees, office space and overhead, travel, printing, dues and memberships, publications, professional development fees, and programmatic expenses.

Affinity Group
A coalition of grantmaking institutions that shares information or provides professional development and networking opportunities to individual grantmakers with a shared interest in a particular subject or funding area.

Annual Report
A voluntary report published by a foundation describing its grant activities and application procedures. It may be a simple typed document listing the year's grants or an elaborately detailed document. A growing number of foundations use an annual report to inform the community about their contributions activities, policies, and guidelines — and a number of foundations are now choosing to publish their annual reports online.

Articles of Incorporation
A document filed with the Secretary of State or other appropriate state office by persons establishing a corporation. This is the first legal step in forming a nonprofit corporation.

Assets
Money, stocks, bonds, real estate or other holdings of a foundation. Generally, assets are invested and the income is used to make grants. (See Payout Requirement.)

B Corps
B Corps use the power of business to solve social and environmental problems. Additional information is available at www.bcorporation.net.

Beneficiary
The donee or grantee receiving funds from a foundation or corporate-giving program is the beneficiary, although society benefits as well.

Bequest
A sum of personal or real property made available upon the donor's death.

Board Job Descriptions
Documents that specify roles, responsibilities and attributes of board members.

Board of Directors (Board of Trustees)
An organized and/or elected body of advisors with fiduciary and oversight responsibility.

"Bricks and Mortar"
An informal term for grants for buildings or construction projects.

Building Campaign
A drive to raise funds for construction or renovation of buildings.

Bylaws
Guidelines for the operation of a nonprofit corporation, developed according to state law requirements. Bylaws often provide the methods for the selection of directors, the creation of committees, and the conduct of meetings.

Capacity Building
A process funders use to help nonprofit organizations strengthen their internal operations to become more efficient and effective for those they serve.

Capital Campaign (or Capital Development Campaign)
An organized drive to collect and accumulate substantial funds to finance major needs of an organization such as a building, major repair project, or endowment.

Challenge Grant
A grant that is made on the condition that other monies must be secured, either on a matching basis or via some other formula, usually within a specified period of time, with the objective of stimulating giving from additional sources.

Charitable Deduction
The portion of a gift to a qualified charity that is deductible from an individual's federal income tax, individual's gift tax, or individual's estate tax.

Charitable Gift Annuity
An agreement between a donor and a public charity whereby the donor irrevocably makes a gift of cash or stock and, in turn, the public charity agrees to pay a fixed annuity to one or two beneficiaries for life. Upon the donor's death, the remainder is the public charity's to utilize for charitable purposes.

Charitable Giving Plan
A plan that best reflects one's life experiences, values, goals, and passions that structures giving to a charitable organization(s).

Charitable Lead Trust
A legal device used to set aside money or property of one person for the benefit of one or more persons or organizations. Specifically, this type of trust allows for a regular, fixed amount to go to a charity for a specific number of years. At the end of that time, the remainder of the trust passes to one's heirs.

Charitable Organization
An organization that is eligible to receive charitable donations and is tax-exempt under federal tax law.

Charitable Remainder Trust
A legal device used to set aside money or property of one person for the benefit of one or more persons or organizations. Specifically, this type of trust allows one to take a deduction for a gift to the trust in the year in which the trust is formed. One receives income from this type of trust for life and after one's death, the assets pass to the designated charity.

Charitable Trust
Any trust designated to make a substantial gift to a charity and also achieve income and estate tax savings for the grantor.

Checkbook Philanthropy
Spontaneous, responsive giving by a donor sometimes without personal involvement. Often involves giving small amounts in an unplanned manner.

Committed Funds
A portion of a donor's budget that has already been pledged for future allocation.

Community Foundation
A type of foundation formed by broad-based community support from multiple sources: trusts, endowments, individual contributions, or private foundation grants. A community foundation often serves both its community and the donors who live in that community. All community foundations are classified as public charities.

Community Funding Board
A decision-making body comprised of people who are constituents of a certain geographic area or issue for the purposes of making grants. The scope of a community funding board's responsibilities include reviewing applications, participating in site visits, and making final grant decisions.

Conflict of Interest Policy
Written policy developed within a foundation to address conflict of interest issues between trustees and potential grantees in a manner that is fair both to potential grantees and to the foundation trustee with whom they have a relationship. The policy details what is — and what is not — acceptable behavior on the part of the trustee.

Corporate Foundation (or Company-Sponsored Foundation)
A type of private foundation that receives its income from the profit-making company whose name it bears but which is legally an independent entity. Corporations may fund these foundations with a donation of permanent assets or give periodic contributions that are generally based on a percentage of the company's profits.

Corporate Giving Program
Funding that is distributed, other than through a foundation, to meet corporate contributions goals. Often such a program is handled by the public affairs or public relations office. A corporate giving program is not subject to the same reporting requirements as a private foundation.

Custodian
A bank or other financial institution that has custody of stock certificates and other assets of a mutual fund, individual, corporation, or institution. All custodians can hold assets in safekeeping, collect income on securities in custody, settle transactions, invest cash overnight, handle corporate accounting, and provide accounting reports.

Decline (or Denial)
The refusal or rejection of a grant request. Some declination letters explain why the grant was not made, but many do not.

Declining Grant
A multi-year grant that becomes smaller each year, in the expectation that the recipient organization will increase its fundraising from other sources.

Deferred Gift
A gift that is committed to a charitable organization but is not available for use until some future time, usually the death of the donor.

Demonstration Grant
A grant made to establish an innovative project or program that, if successful, will serve as a model and may be replicated by others.

Designated Funds
A type of restricted fund in which the fund beneficiaries are specified by the grantors.

Directors & Officers Insurance (D & O Insurance)
D & O Liability Insurance is designed to help protect the Directors and Officers of a foundation against claims other than those for personal injury, property damage, or loss of property.

Discretionary Funds
Grant funds distributed at the discretion of one or more trustees, which usually do not require prior approval by the full board of directors. The governing board can delegate discretionary authority to staff.

Disqualified Person (Private Foundation)
Substantial contributors to a private foundation, foundation managers, certain public officials, family members of disqualified persons, and corporations and partnerships in which disqualified persons hold significant interests. The law bars most financial transactions between disqualified persons and foundations. (See Self-Dealing)

Disqualified Person (Public Charity)
As applied to public charities, the term disqualified person includes (1) organization managers, (2) and any other person who, within the past five years, was in a position to exercise substantial influence over the affairs of the organization, (3) family members of the above, and (4) businesses they control. Paying excessive benefits to a disqualified person will result in the imposition of penalty excise taxes on that person, and, under some circumstances, on the charity's board of directors. (See Intermediate Sanctions)

Donee
The individual or organization that receives a grant.

Donor
The individual or organization that makes a grant.

Donor-Advised Fund (DAF)
A charitable investment account administered by a public charity. Donors can open a fund in a donor-advised program by making a contribution and receiving an immediate tax deduction. The contribution is irrevocable and becomes controlled by the public charity, which invests the funds in competitive investment vehicles. Although the donor no longer controls the funds once contributed, they can recommend grants to other charitable organizations.

Donor Collaborative (Cooperative Venture)
A joint effort between or among two or more grantmakers. Partners may share in funding responsibilities or contribute information and technical resources.

Donor Designated Fund
A fund held by a community foundation where the donor has specified that the fund's income or assets be used for the benefit of one or more specific public charities. These funds are sometimes established by a transfer of assets by a public charity to a fund designated for its own benefit, in which case they may be known as grantee endowments. The community foundation's governing body must have the power to redirect resources in the fund if it determines that the donor's restriction is unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community or area served.

Due Diligence
The degree of prudence that might be properly expected from a reasonable person in the circumstances; applicable to foundation personnel who act in a fiduciary capacity. (See Fiduciary Duty)

E-philanthropy
Term used to describe the variety of methods of giving using the Internet. Many sites have been developed that accept donations in addition to providing information regarding nonprofit groups.

Endowment
The principal amount of gifts and bequests that are accepted subject to a requirement that the principal be maintained intact and invested to create a source of income for a foundation. Donors may require that the principal remain intact in perpetuity, or for a defined period of time or until sufficient assets have been accumulated to achieve a designated purpose.

Endowment Grant
Some nonprofit organizations set aside money that is invested and earns interest. The charity spends only the interest and keeps the original sum untouched. Such a fund is called an endowment and is commonly found within charities with large physical plants, such as hospitals and colleges. From time to time, charities launch fundraising efforts to start, or add to, an endowment. Funders of an endowment grant want to be sure that the gift to an endowment will remain in the endowment earning interest and not be drawn out of the endowment to satisfy transitory operating expenses.

Estate Planning
The process of creating an orderly and desirable arrangement for the disposition of your estate by working with an advisor (attorney, accountant, trust officer, life insurance agent, etc.). The main objective is to ensure that your wishes regarding the security of your family and others are fulfilled. Tax consequences are also taken into consideration during estate planning. A well-drafted estate plan can provide significant benefits to you and/or your family and help ensure that your philanthropic legacy continues.

Estate Taxes
Taxes imposed on your property as it passes from the dead to the living.

Ethical Will (or Legacy Letter)
A document that shares an individual's values, life lessons, hopes and dreams for the future, love, and forgiveness with family, friends, and community. An ethical will is not a legal document; it does not distribute your material wealth.

Excise Tax
The annual tax of 1 or 2 percent of net investment income that must be paid to the IRS by private foundations.

Executive Search Firm
(see Search Firm)

Expenditure Responsibility
When a private foundation makes a grant to an organization that is not classified by the IRS as tax exempt under Section 501(c)(3) and as a public charity according to Sections 509(a), it is required by law to ensure that the funds are spent for charitable purposes and not for private gain or political activities. Such grants require a pre-grant inquiry and a detailed written agreement. Special reports on the status of the grant must be filed with the IRS, and the organizations must be listed on the foundation's 990-PF.

Family Foundation
A private foundation whose funds are derived from members of a single family. To remain a family foundation, one or more family members continue to serve as officers or board members of the foundation and play an influential role in governance and grantmaking.

Fiduciary Duty
The legal responsibility for investing money or acting wisely on behalf of another. Managers of charitable entities have fiduciary obligations to the charity. (See Due Diligence)

Field Scan
A tool funders can use to look at a given field to see where the opportunities, needs, and gaps in funding lie. This may range from informal phone interviews to learn about what others in your field are funding to more complex and structured studies carefully designed to provide a broad and detailed overview of where a given field has been and is going, where greater support is needed, and where efforts have missed the mark.

Financial Report
An accounting statement detailing financial data, including income from all sources, expenses, assets and liabilities. A financial report may also be an itemized accounting that shows how grant funds were used by a donee organization. Most foundations require financial reports from grantees.

Form 1023
Application for Recognition of Exemption under IRC Section 501(c)(3) that organizations must file in order to receive tax-exempt status.

Form 990
The tax information form filed annually with the IRS and the state's Attorney General's office by tax-exempt organizations and institutions with gross revenue of more than $25,000. This filing is not required for religious organizations. This tax return includes information about the organization's assets, income, operating expenses, contributions, paid staff and salaries, names and addresses of persons to contact, and program areas.

Form 990-PF
The IRS form filed annually by all private foundations. The letters "PF" stand for "Private Foundation." The IRS uses this form to determine if a private foundation is complying with the Internal Revenue Code. The 990-PF form lists foundation assets, receipts, expenditures, compensation of officers, and grants made during the year.

Funding Cycle
A chronological pattern of proposal review, decision-making, and applicant notification. Some donor organizations make grants at set intervals (quarterly, semi-annually, etc.), while others operate under an annual cycle.

General Purpose or Operating Support Grant
A grant that is used to support the general expenses of operating an organization, including salaries, materials and supplies, or utility bills. An operating grant supports an organization's overall mission and entrusts that entity to make the best use of the money. It is often helpful to an organization when making an operating support grant to do so over a multi-year period. This enables the organization to have the kind of basic support that frees them up to focus on their core projects and initiatives.

Generation-Skipping Trust
An estate tax-saving trust, where the principal is left in trust for one's grandchildren, with one's children receiving only the trust income.

Gift Fund
A commercially sponsored donor-advised fund typically formed by a mutual fund group or similar financial institution offering some grantmaking assistance to donors. Gift funds function like private foundations, but are operated at a lower cost, and provide all the tax benefits available for contributions to a public charity. They do not provide the unlimited control that is inherent in a private foundation.

Giving Circle
An organization of people who meet regularly to share information and to make joint giving decisions.

Giving Pattern
The overall picture of the types of projects and programs that a donor has historically supported. The past record may include areas of interest, geographic locations, dollar amount of funding, or kinds of organizations supported.

Grant
The award of funds to an organization or individual to undertake charitable activities.

Grant Management Software
Software that provides foundations with the database and online tools to administer and automate the grant process.

Grant Monitoring
The ongoing assessment of the progress of the activities funded by a donor, with the objective of determining if the terms and conditions of the grant are being met and if the goal of the grant is likely to be achieved.

Grantee/Grantseeker
See Donee.

Grant Recommendation Form
A form that must be completed by an advisor in order to begin the process of grant making. Each recommendation must be for a minimum of $250. Grants may be recommended anonymously.

Grantee Financial Report
A report detailing how grant funds were used by an organization. Many grantmakers require this report from grantees. A financial report generally includes a listing of all expenditures from grant funds, as well as an overall organizational financial report covering revenue and expenses, assets and liabilities.

Grantor/Grantmaker
See Donor.

Grassroots Fundraising
Efforts to raise money from individuals or groups from the local community on a broad basis. Usually an organization does grassroots fundraising within its own constituency—people who live in the neighborhood served or clients of the agency's services.

Guidelines
A statement of a donor's goals, priorities, criteria and procedures.

Impact Investing
A form of investing that prioritizes measurable social and environmental returns before, or in addition to, financial returns.

In-Kind Contribution
A donation of goods or services rather than cash or appreciated property.

Independent Foundation (Private Foundation)
Private foundations are usually founded by one individual, often by bequest. They are occasionally termed "nonoperating" because they do not run their own programs. Sometimes individuals or groups of people, such as family members, form a foundation while the donors are still living. Many large independent foundations are no longer governed by members of the original donor's family but are run by boards made up of community, business, and academic leaders. Private foundations make grants to other tax-exempt organizations to carry out their charitable purposes. Private foundations must make charitable expenditures of approximately 5% of the market value of their assets each year. Although exempt from federal income tax, private foundations must pay a yearly excise tax of 1% or 2% of their net investment income.

Intermediate Sanctions
Penalty taxes applied to disqualified persons of public charities (see Disqualified Person) that receive an excessive benefit from financial transactions with the charity. An excessive benefit may result from overcompensation for services or from other transactions such as charging excessive rent on property rented to the charity. Unlike private foundations, public charities are not barred from engaging in financial transactions with disqualified persons as long as the transaction is fair to the charity. Penalty taxes also may apply to organization managers, such as the charity's board, that knowingly approve an excess benefit transaction.

Internal Revenue Service (IRS)
The federal agency with responsibility for regulating foundations and their activities.

Jeopardy Investment
An investment that is found to have jeopardized a foundation's purposes. The result of a jeopardy investment may be penalty taxes imposed upon a foundation and its managers. While certain types of investments are subject to careful examination, no one type is automatically a jeopardy investment. Generally, a jeopardy investment is found to be made when a foundation's managers have "failed to exercise ordinary business care and prudence."

Letter of Inquiry (or Query Letter)
A brief letter outlining an organization's activities and a request for funding sent to a prospective donor to determine if there is sufficient interest to warrant submitting a full proposal. This saves the time of the prospective donor and the time and resources of the prospective applicant. (See Preliminary Proposal.)

Letter of Intent
A grantor's letter or brief statement indicating intention to make a specific gift.

Leverage
A method of grantmaking practiced by some foundations. Leverage occurs when a small amount of money is given with the express purpose of attracting larger funding from other sources or of providing the organization with the tools it needs to raise other kinds of funds. Sometimes known as the "multiplier effect."

Limited Life
Length of life of a foundation that is limited by the donor(s). The charter may require that the assets be distributed after a certain number of years.

Limited-Purpose Foundation
A type of foundation that restricts its giving to one or very few areas of interest, such as higher education or medical care.

Loaned Executives
Corporate executives who work for nonprofit organizations for a limited period of time while continuing to be paid by their permanent employers.

Lobbying
Efforts by any group or organization to influence legislation by influencing the opinion of legislators, legislative staff, and government administrators directly involved in drafting legislative proposals. Lobbying activities by public charities are limited by Section 501(c)(3) of the tax code. Public charities may lobby as long as lobbying does not become a substantial part of their activities. Private foundations generally may not lobby except in limited circumstances, such as on issues affecting their tax-exempt status or the deductibility of gifts to them. Conducting nonpartisan analysis and research and disseminating the results to the public generally is not lobbying for purposes of these restrictions.

Matching Gifts Program
A grant or contributions program that will match employees' or directors' gifts made to qualifying charitable organizations. Specific guidelines for these gifts are established by each employer/foundation. (Some foundations also use this program for trustees and other foundation-related individuals.)

Matching Grant
A grant or gift made with the specification that the amount donated must be matched on a one-for-one basis or according to some other prescribed formula.

Mission Statement
A written statement that reflects the foundation's core values and reason(s) for existing. It should capture what the foundation does, why it does it, how it does it, and for whom it does it. A mission statement broadly addresses the current and future purpose(s) of the foundation.

Mission-related Investing
A specific type of socially responsive investing that attempts to align an institution's mission with its investment strategies.

Multi-Year Grants
A multi-year grant is extremely important to grantees, particularly when they are seeking funding for a project that may be planned over several years, or need funding for general operations. Providing multi-year funding allows grant seekers to focus on the mission of their work rather than seeking funding on an annual basis.

Next Generation Board
An adjunct board that provides younger members of a family the opportunity to engage in the operations of its foundation. Very often, these boards manage a pool of money set aside for next-generation family members to distribute. By law, these grants must be made with the formal board's approval. The intended result is to develop a new generation of skilled philanthropists ready to join the family's existing board or create their own approach to meaningful service. (also referred to as Junior Board, see also Adjunct Board)

Noncash Contribution
An asset other than cash donated to a tax-exempt organization — for example stocks, bonds, vehicles, artwork, or real estate.

Nonprofit
An organization whose purpose is to serve a public good rather than make a profit; net earnings are not distributed to the owners or shareholders (as in a private corporation) or to the members, but are retained for the purpose for which the organization was established. The organizational form and use of volunteers varies enormously. Nonprofits include hospitals, universities, religious organizations, cooperatives, charities, voluntary organizations, economic and trade associations (the association is nonprofit even though the industry which it represents is not), among many others.

Not-for-Profit
Not-for-profit organization is a synonym for nonprofit organization.

Operating Foundation
Also called private operating foundations, operating foundations are classified by the IRS as private foundations whose primary purpose is to conduct research, social welfare, or other programs determined by its governing body or establishment charter. Operating foundations use the bulk of their income to provide charitable services or to run

charitable programs of their own. They make few, if any, grants to outside organizations. Operating foundations must follow a series of specific rules, in addition to the applicable rules for private foundations.

Operating Support
A contribution given to cover an organization's day-to-day, ongoing expenses, such as salaries, utilities, offices supplies, etc.

Organizational Effectiveness
The structures and systems that allow an agency to grow, adapt, innovate, and take advantage of new opportunities resulting in improved internal processes and external outcomes for their clients.

Overhead
An accounting distinction, which typically includes the general operating, management, and development costs in an organization. Sometimes, folks in the philanthropic sector call overhead "support services" noting that the expenses in that category help an organization to carry out programming.

Pass-Through Foundation
Foundations that receive money and make distributions to donees, with little or no principal remaining with the foundation.

Payout Requirement
The minimum amount that a private foundation is required to expend for charitable purposes (includes grants and necessary and reasonable administrative expenses). In general, a private foundation must annually pay out at least 5 percent of the average market value of its assets.

Performance Reviews
An opportunity for the foundation's board or management to give feedback to staff based on prior written expectations and performance measures, and set future goals.

Perpetuity
Length of life of a foundation that is deemed perpetual by the donor(s). The donor may wish to establish the foundation in perpetuity to enable the family tradition to continue after his or her death.

Personal Gift Pledge
Pledge made by a disqualified person of a foundation. Self-dealing rules preclude payment by a foundation of any obligation of a disqualified person, even a charitable pledge.

Philanthropy
The origin of the word philanthropy is Greek and means love for mankind. Today, philanthropy includes the concept of voluntary giving by an individual or group to promote the common good. Philanthropy also commonly refers to grants of money given by foundations to nonprofit organizations.

Planning Grant
If an organization is planning a major new program, a good deal of time and effort may be needed to figure out how it will operate. A planning grant gives that organization the resources it needs to research the needs of the constituency being served, consult with experts in the field, or conduct other planning activities. A common planning assignment is to support initial project development work.

Pledge
A promise to make future contributions to an organization. For example, some donors make multi-year pledges promising to grant a specific amount of money each year.

Post-Grant Evaluation
A review of the results of a grant with the emphasis upon whether or not the grant achieved its desired objective.

Preliminary Proposal
A brief draft of a grant proposal used to learn if there is sufficient interest to warrant submitting a proposal.

Private Benefit
The transfer or use of a charity's assets or income, or the conferment of undue advantage, to private persons who are not necessarily charity insiders. Some private benefit is permitted, but it must not be more than incidental to the charitable purpose being served. Private benefit is a broad term that includes inurement and applies to all 501(c)(3) organizations.

Private Foundation
A nongovernmental, nonprofit organization with funds (usually from a single source, such as an individual, family or corporation) and program managed by its own trustees or directors, that was established to maintain or aid social, educational, religious or other charitable activities serving the common welfare, primarily through grantmaking. "Private foundation" also means an organization that is tax-exempt under Section 501(c)(3) of the tax code and is classified by the IRS as a private foundation as defined in the code.

Program Officer (or Program Associate, Public Affairs Officer or Community Affairs Officer)
A staff member of a foundation or corporate giving program who may do some or all of the following: recommend policy, review grant requests, manage the budget, and process applications for the board of directors or contributions committee.

Program-Related Investment
A loan or other investment (as distinguished from a grant) made by a grantmaking organization to a profit making or nonprofit organization for a project related to the foundation's stated purpose and interests. Program-related investments are often made from a revolving fund; the foundation

generally expects to receive its money back with limited, or below-market, interest, which will then provide additional funds for loans to other organizations. A program-related investment may involve loan guarantees, purchases of stock or other kinds of financial support.

Prohibited Transaction
One of a number of activities in which certain private foundations and/or foundation representatives may not engage. (See Disqualified Person.)

Proposal
A written application, often accompanied by supporting documents, submitted to a foundation or corporate giving program in requesting a grant. Most foundations and corporations do not use printed application forms but instead require written proposals; others prefer preliminary letters of inquiry prior to a formal proposal.

Prudent Investor Rule
This rule defines the duty owed by a trustee to the beneficiary in making "prudent" investment decisions for the beneficiary's benefit. Initially, this only required that the actions taken by a trustee be those of a man of prudence, discretion, and intelligence. Over the years, however, the 1830 statute has been revised: It is now commonly referred to as The Third Restatement of the Prudent man Rule.

Public Charity (or Public Foundation)
A nonprofit organization that receives at least one-third of its annual income from the general public (including government agencies and foundations)—the so-called public support test, which can also be satisfied if the foundation meets an absolute minimum public support test equal to at least 10 percent of all support, and also has a variety of other characteristics which make it sufficiently "public." Some make grants, while others engage in direct service or other tax-exempt, charitable activities serving the common welfare.

Public Support Test
Tests designed to ensure that a section 170(b)(1)(A)(vi) or 509(a)(2) public charity is responsive to the public rather than to the private interests of a limited number of persons. The organization must normally receive more than one-third of its financial support from the public.

Qualifying Distributions
Expenditures of a private foundation made to satisfy its annual payout requirement. These can include grants, reasonable administrative expenses, set-asides, loans and program-related investments, and amounts paid to acquire assets used directly in carrying out tax-exempt purposes.

Regional Association of Grantmakers (RAG)
Nonprofit membership associations of private and community foundations, corporations, individuals and others committed to strengthening philanthropy in the geographic areas in which they operate.

Requests For Proposals (RFP)
Request sent by foundations to organizations that might qualify for funding within a specific program of the foundation. The RFP lists project specifications and application procedures. While a few foundations occasionally use RFPs in specific fields, most prefer to consider proposals that are initiated by applicants.

Restricted Funds
Assets or income that is restricted in its use, in the types of organizations that may receive grants from it or in the procedures used to make grants from such funds.

Revocation
A corrective action that removes a charity's tax-exempt charter. Revocation is used for violations such as inurement, performing non-exempt activities, operating in a commercial manner, and operating for private use.

Search Firm (also referred to as Executive Search Firm)
An outside vendor that helps locate qualified candidates for executive positions.

Seed Money
A grant or contribution used to start a new project or organization.

Self-Dealing
An illegal financial transaction between a private foundation and a disqualified person(s). There are a few exceptions to the self-dealing rule, including the compensation of disqualified persons by a foundation for services that are necessary and reasonable. Violations of this rule result in an initial penalty tax equal to 5 percent of the amount involved, payable by the self-dealer.

Set-Asides
Funds set aside for future payments. If a foundation demonstrates successfully to the IRS in advance that the funds will in fact be paid within 60 months and that the project can better be accomplished by such a set-aside than by an immediate grant, the full appropriation may count in the first year.

Site Visit
Visiting a donee organization at its office location or area of operation; meeting with its staff or directors or with recipients of its services.

Social Change Philanthropy
A form of philanthropy that focuses on the root causes of social, economic, and environmental injustices. It strives to include the people who are impacted by those injustices as decision-makers. It also aims to make the field of philanthropy more accessible and diverse. In social change philanthropy, donors and foundations act as allies to social justice movements by contributing not only monetary resources but time, knowledge, skills, and assets.

Social Investing (also referred to as Ethical Investing and Socially Responsible Investing)
The practice of aligning a foundation's investment policies with its mission. This may include making program-related investments and refraining from investing in corporations with products or policies inconsistent with the foundation's values.

Social Venture Fund
Charitable fund whose donor invests their expertise as well as their money, providing support and requiring accountability of nonprofit organizations just as venture capitalists do in business enterprises. (See Venture Philanthropy.)

Spend Out (Spend Down)
Process used by foundations to deplete assets resulting in the closing of the foundation.

Strategic Planning
Strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what a foundation is, what it does and why it does it. Strategic planning involves the entire process of defining the future direction and character of the foundation, and of attempting over an adopted timetable to attain the desired state to accomplish related goals and outcomes.

Supporting Organization (Supporting Foundation)
Supporting organizations are among the many charitable vehicles that donors can use to achieve their specific philanthropic goals. A Supporting Organization is a charity that is not required to meet the public support test because it supports a public charity. To be a Supporting Organization, a charity must meet one of three complex legal tests that assure, at a minimum, that the organization being supported has some influence over the actions of the supporting organization. Although a Supporting Organization may be formed to benefit any type of public charity, the use of this form is particularly common in connection with public charities like National Philanthropic Trust. Supporting Organizations are distinguishable from donor-advised funds (DAFs) because they are distinct legal entities. There are three types of supporting organizations defined by their relationship with their supported organization(s): Type I — operated, supervised, or controlled by a supported organization (parent-subsidiary relationship); Type II — supervised or controlled in connection with the supporting organization (brother-sister relationship); and Type III — operated in connection with the supported organization(s).

Tax-Exempt Organizations
Organizations that do not have to pay state and/or federal income taxes. Tax-exempt status can be obtained by applying to the IRS and, in most states, the Attorney General's Office.

Technical Assistance
Operational or management assistance given to a nonprofit organization. It can include fundraising assistance, budgeting and financial planning, program planning, legal advice, marketing and other aids to management. Assistance may be offered directly by a foundation or corporate staff member or in the form of a grant to pay for the services of an outside consultant. (See In-Kind Contribution.)

Tipping
The situation that occurs when a grant is made that is large enough to significantly alter the grantee's funding base and cause it to fail the public support test. This failure can result in the grantee's conversion to a private foundation and would also require expenditure responsibility on the part of the grantor.

Trust
A legal device used to set aside raised money or property of one person for the benefit of one or more persons or organizations.

Trustee
The person(s) or institutions responsible for the administration of a trust.

Unrestricted Funds
A grant that does not specifically stipulate how the money is to be spent by the grantee. (Note: In community foundations, Unrestricted Funds refers to funds the foundation holds that are not designated by donors and may be granted at the discretion of the board of the community foundation.)

Venture Philanthropy
Charitable funding where donors invest their expertise as well as their money, providing support and requiring accountability of nonprofit organizations similar to what venture capitalists do in business enterprises. Donors may assist nonprofit organizations in the planning, launch, and management of new programs or social purpose enterprises. In addition to grants, venture philanthropists provide networking, management advice and an array of other supports to organizations within a given portfolio of charitable investments. (See Social Venture Fund.)

Virtual Foundation
The transition from grantmaking through mail and face-to-face meetings to grantmaking by email and Internet transfers. Such a foundation may exist only on the Internet and be capable of transferring money from philanthropists to organizations globally.

Volunteerism/Voluntarism
Performing an act of kindness, freely giving of your talent, time and effort for the simple fulfillment of community expectations

Will
A legal document in which a person states various binding intentions about what he or she wants done with his or her property after death.

This glossary is adapted with permission from the Family Foundation Library series [Council on Foundations, 1997, Virginia M. Esposito (editor)]. Additional entries have been adapted from a glossary compiled by the National Philanthropic Trust (www.nptrust.com). As significant edits were made to the text and more than 40 new entries were added, the National Center for Family Philanthropy is solely responsible for its content.The Family Foundation Library series is available from the Council on Foundations at www.cof.org.

We thank all of those who suggested terms and provided draft definitions. We would like to offer a special thanks to the National Philanthropic Trust for providing a number of newer terms.

SPLENDID LEGACY **ONLINE**

While the book you have in your hands will provide you with much of what you need to know regarding the basics of establishing, governing, and managing a family foundation, no single volume can capture all of the nuances and day-to-day realities of this adventure.

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- Bylaws
- CEO performance review
- Conflict of interest policies
- Discretionary grants policies
- Donor legacy and intent statements
- Employee handbooks
- Family values statements
- Grant application forms
- Investment policies
- Mission statements
- Next gen board policies
- Publicity policies
- Reimbursement policies
- Site visit checklists

And much more!

BIOGRAPHIES: EDITORS, AUTHORS, AND CONTRIBUTORS

EDITORS

Virginia M. Esposito, Editor, is the founder and president of the National Center for Family Philanthropy. For more than 35 years, she has worked to advance private philanthropy through research and education. For 30 of those years, she has focused on the family philanthropic experience, promoting values, vision, and excellence across generations of donor families. Ginny was editor and principal author of the first edition of *Splendid Legacy*. Her research publications include *The Power to Produce Wonders: The Value of Family in Philanthropy and The Family Foundation CEO: Crafting Consensus out of Complexity*. Ginny also edited, and was principal author of, the four-volume Family Foundation Library and 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. She has served on boards and committees for organizations including Great Nonprofits, the Binational Commission on the Nonprofit Sector (US and South Africa), the Commission on the Future of Public Education (Public Education Network), Committee on Ethics and Accountability (Independent Sector), the Philanthropy and the Black Church Project, and Strengthening Native American Philanthropy. She currently serves on the board of directors of the John M. Belk Endowment.

Peter Panepento, Associate Editor, is a professional editor, writer, and consultant who specializes in foundations and nonprofits. He is principal and co-founder of Turn 2 Communications, a communications and content marketing company that works with a diverse list of clients, including the National Center for Family Philanthropy, the Eugene and Agnes E. Meyer Foundation, the Peer-to-Peer Professional Forum, GuideStar, and America's Charities. Peter is former assistant managing editor of *The Chronicle of Philanthropy* and a former senior vice president at the Council on Foundations. He serves on the board of directors of the Community Foundation of Howard County.

AUTHORS AND CONTRIBUTORS

Jason C. Born is vice president for programs at the National Center for Family Philanthropy. In this role, Jason serves as NCFP's lead knowledge curator, content creator, and connector for philanthropic families. Jason is the founding editor of both *Family Giving News* and the Passages Issue Brief series, and serves as host of NCFP's monthly Family Philanthropy Webinar series. He previously helped to launch Funders Together to End Homelessness as director of national outreach for the Melville Charitable Trust.

Debbi Brainerd, a Seattle native and active community volunteer, is the founder of IslandWood, a non-profit that each year helps more than

12,000 children from 160 schools learn to explore their connection to the natural world. In addition to serving as chair of IslandWood's board, Debbi is chair of the Bloedel Reserve, an award-winning public garden on Bainbridge Island, Wash. She is a member of the Washington Women's Foundation and Social Venture Partners, as well as a past board member of Cancer Lifeline.

Paul Brainerd is founder of the Brainerd Foundation and a founding member of Social Venture Partners, which encourages individuals to give back to their communities by engaging philanthropists, strengthening nonprofits, and investing in collaborative solutions. Paul is currently building a community development project in Glenorchy, New Zealand. The Glenorchy Marketplace Project embraces the Living Building Challenge to balance the built and natural environments. The campground and general store operate as sustainable businesses to serve both visitors and local residents. Profits from these operations flow to the Glenorchy Community Trust, which will invest in projects to enhance the vibrancy of the Glenorchy community. Paul has also worked for years to create pro-conservation majorities in key local, state, and federal governing bodies.

Sarah J. Cavanaugh connects individuals, families, and organizations to their own clarity of purpose and vision. She has led startups in the nonprofit sector working for many years in support of the arts, leadership development, environmental justice, children's health, and human rights. She is an activist, teacher, writer, film producer and photographer. A founding trustee of the Russell Family Foundation, she has served on many boards, including the National Center for Family Philanthropy.

Susan Crites Price is a consultant for the National Center for Family Philanthropy. Her varied responsibilities include writing a series of guides for Family Foundation CEOs. Susan served as Vice President of the National Center from June 2007 until June 2011. She previously served as managing director of the Family Foundation Services Department at the Council on Foundations. Susan is the author of *Generous Genes: Raising Caring Kids in a Digital Age*, and is a frequent speaker to groups around the country on the subject of instilling philanthropic values in children. Susan has been interviewed about parenting issues on "The Oprah Winfrey Show," "Today," numerous other television and radio broadcasts, and many newspapers and magazines. She has been featured in articles about philanthropy in such publications as *Working Mother* magazine, *The Atlanta Journal-Constitution*, *Minneapolis Star Tribune*, and *The Chronicle of Philanthropy*.

David Dodson is President of MDC, where he has directed major projects to increase student success in public schools and community colleges, address regional economic decline, strengthen community philanthropy, and build multiracial leadership across the South and the nation. He is a frequent speaker on creating equity and opportunity for low-wealth communities and has advised major philanthropic foundations on strategies to address poverty and reduce disparities. He is a member of the boards of The Mary Reynolds Babcock Foundation, the US Endowment for Forestry & Communities, the Center for Law and Social Policy, Durham Technical Community College, and the advisory board of the Aspen Roundtable on Comprehensive Community Change. Prior to joining MDC he served as executive director of the Cummins Engine Foundation and director of corporate responsibility for Cummins Engine Company in Columbus, Indiana.

Elaine Gast Fawcett is an author and communications strategist who helps foundations, nonprofits and grantmaker support groups tell their stories, build their communications capacity, market their messages, and move their mission forward. Through her national communications and consulting firm PhilanthroComm (formerly Four Winds Writing), Elaine has authored seven books for grantmakers, personally interviewed more than 1,000 foundation and family office leaders, helped manage multi-million dollar grant initiatives, and crafted family histories, toolkits, articles, white papers, reports, manuals, online content and marketing materials.

William H. Gates, Sr., is co-chair and former CEO of the Bill & Melinda Gates Foundation, where he guides the vision and strategic direction of the foundation and serves as an advocate for the foundation's key issues. He is a founding partner at Preston Gates & Ellis and has served as president of both the Seattle/King County Bar Association and the Washington State Bar Association. He has served as trustee, officer, and volunteer for more than two dozen organizations, including the Greater Seattle Chamber of Commerce and King County United Way. In 1995, he founded the Technology Alliance, a cooperative regional effort to expand technology-based employment in Washington.

Antonia Grumbach has practiced law at Patterson Belknap Webb & Tyler for more than four decades. She became a partner in 1979 and served as managing partner from 1990-1996. Ms. Grumbach currently focuses her practice on tax-exempt organizations, where she advises organizations on governance issues, endowment questions, tax issues, and public/private partnerships. She serves as trustee to a number of boards and foundations, including Teacher College at Columbia University, Milton Academy, Wildlife Conservation Society, Mrs. Giles Whiting Foundation, Partnership for Children's Rights, The New Press, and Ponagansett Foundation.

Susan Packard Orr is the board chair of the David and Lucile Packard Foundation and founder and CEO of Telosa Software, a company started in 1986 to provide fundraising and other software to nonprofit organizations. Prior to starting Telosa, Susan worked as a programmer at Health Computer Services at the University of Minnesota and as an economist at the National Institutes of Health. Susan currently serves as a trustee of the Lucile Packard Children's Hospital, the Monterey Bay Aquarium, and the Packard Humanities Institute and previously served as a trustee of the Lucile Packard Foundation for Children's Health. She served for seven years on the board of the Hewlett Packard Company. In May 2014, Susan was named the first Distinguished Fellow in Family Philanthropy by the National Center for Family Philanthropy (NCFP).

Michael Rion is a Founder and Principal of Resources for Ethics and Management. He is recognized nationally for his pioneering work in ethics training that successfully bridges the gap between theory and practice. He has worked on organizational ethics with major corporations and nonprofit organizations for more than 30 years. Rion previously served as Director of Corporate Responsibility at Cummins Engine Company, where he worked directly with line managers on issues of responsible management. Before forming Resources for Ethics and Management, he served six years as President of Hartford Seminary, an ecumenical center for continuing education and applied research. He holds a PhD in religious social ethics from Yale University and is the author of *The Responsible Manager: Practical Strategies for Ethical Decision Making and Everyday Ethics: Putting Values into Action*.

Nina Sachdev Hoffmann joined Media Impact Funders as communications director in January 2016. Before that, she spent more than a decade working as a journalist. A copy editor at heart, Nina has worked in almost every editorial capacity imaginable at the *Dallas Morning News*, the *Santa Rosa Press Democrat*, the *Philadelphia Daily News*, the *Philadelphia Weekly* and more. Despite the number of hats she's worn throughout the years, her favorite has been mentoring young and aspiring journalists. Nina is the creator and co-editor of the award-winning *The Survivors Project: Telling the Truth About Life After Sexual Abuse*, a book-length work of nonfiction that utilizes first-person storytelling to address the reality of healing from the effects of sexual abuse.

Pamela Howell-Beach began her career in philanthropy in 1987 as the first full-time Program Officer for the Toledo Community Foundation and later served as the foundation's President from 1990 to 2003. In 2004, Ms. Howell-Beach became the first full-time CEO for the Stranahan Foundation in Toledo, Ohio. Her leadership roles include the Ohio Grantmakers Forum, where she has served in various capacities including Chair of the Board of Trustees.

John Sare is a partner in the tax-exempt organizations practice and the trusts and estates group of Patterson Belknap Webb & Tyler. He has extensive experience representing foundations, museums, colleges, and other types of exempt organizations. Mr. Sare also advises individuals and fiduciaries on legal issues involving works of art, charitable giving, estate planning, and the administration of estates and trusts. He is former member of the adjunct faculty of the Columbia University School of Law and is co-author of *Estate Planning for Artists and Authors* and the first edition of *Splendid Legacy*. He is also co-author of *Underwater Endowments: Understanding Your Options, Impact of the New Form 990 on Conflicts and Disclosure Policies*, and *New IRS Form 990 Changes the Landscape for Public Disclosure by Exempt Organizations*.

Vincent Stehle is Executive Director of Media Impact Funders, a membership organization of foundation officials and philanthropists who support media and technology in the public interest. Previously, Stehle was Program Director for Nonprofit Sector Support at the Surdna Foundation, a family foundation based in New York City. He also served as a consultant with the John S. and James L. Knight Foundation in support of its efforts in media innovation and journalism. Prior to joining Surdna, Stehle worked for ten years as a reporter for the *Chronicle of Philanthropy*, where he covered a broad range of issues about the nonprofit sector. Stehle has served as Chairperson of Philanthropy New York (formerly the New York Regional Association of Grantmakers) and on the governing boards of VolunteerMatch and the Nonprofit Technology Network (NTEN). He serves on the Board of Directors of the Center for Effective Philanthropy.

Sarah J. Stranahan has more than 30 years of experience in family philanthropy, mission-related investing, and community organizing. Sarah is a board member of the Stranahan Foundation and a member of Council on Foundations' Finance Committee. As a long time board member of the Needmor Fund (1976-2010), she helped design and oversee its grant program in support of community organizing and its integrated mission related investment program. Sarah has worked for Citizens for Health, Environment and Justice; researched and co-produced the study "What is Good Grantmaking for Social Justice" for the National Network of Grantmakers; and chaired the Social Justice and the Media Reform grant committees at the Threshold Foundation from 1996-2004.

Brian M. Sweet is an associate with Patterson Belknap Webb & Tyler's Trusts & Estates Group. He helps families with drafting wills and revocable trusts, as well as irrevocable trusts and other entities designed to help transfer assets to charitable organizations. He also has considerable experience developing and negotiating planned gifts and bequests, counseling fiduciaries in the administration of estates with substantial charitable interests, and advising charitable organizations with respect to their charitable gifts.

Paul Ylvisaker was a champion of cities and the urban underclass as a planner, government official, foundation executive, and educator, Paul Ylvisaker brought educational distinction to his public appointments and a hard-won understanding of the realities of urban poverty to his academic work. Lured from the Blue Earth County, Minnesota, Council on Intergovernmental Relations to Harvard in 1944, Ylvisaker spent 10 years in academia before working for the Mayor of Philadelphia and then the Ford Foundation where he put his ideas to work. As the creator of the Gray Areas Program at The Ford Foundation, Ylvisaker oversaw the allocation of more than $200 million in grants; these efforts led to major Kennedy and Johnson administration innovations, including the Community Action Program and the Model Cities Program. In the early 70s, Ylvisaker returned to academia, first at Yale and Princeton before becoming dean of the Harvard Graduate School of Education (HGSE). Ylvisaker's teachings, writings, and mentoring about the field of philanthropy inspired then-CEO James A. Joseph to bring Ylvisaker on as a Senior Consultant to the Council on Foundations in 1982. For the next 10 years, until his death in 1992, he continued his work examining family philanthropy and the larger role of philanthropy in civil society. Ylvisaker's thoughtful and strategic work in the philanthropic community earned him the 1990 Council on Foundations Distinguished Grantmaker Award. Today, his work is honored with the Council's Paul Ylvisaker Award for Public Policy Engagement.

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It is remarkable that more than 10 years have passed since the first edition of *Splendid Legacy* was published. NCFP remains indebted to all those who worked to create that seminal resource, and I especially want to thank the associate editor for that volume, Joe Foote. You are all remembered with gratitude and fondness.

Producing the second volume has been much more challenging and fulfilling than I imagined when I set out to update the text. The field has changed so much — in character, goals and structures for giving, founders and their families, tools available, and what is meant by excellence in giving. It would have been folly to contemplate that *Splendid Legacy 2* could be a "dusted off" version of its predecessor.

Given how well the first volume was received, we knew we had something to live up to. (When we saw a used copy of it on EBay for $1,700, we got busy and fast!) But, even if the bar hadn't been set high, all of us who have worked on *Splendid Legacy 2* brought exceedingly high hopes and expectations for ourselves. We were dedicated to producing a resource for a new generation of donors, families, trustees, staff, and advisors and for a new era of even more vibrant and meaningful family grantmaking.

It took a big community of writers, interviewees, reviewers, editors, designers, printers, and cheering sections to pull this off. I am deeply grateful to everyone who played any part in the volume. As I say to those who tell me they have "only a small foundation," there is no such thing. We could not produce this quality material if so many weren't willing to answer a question, provide a sample form, review a draft, or anything in between.

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My other teachers and mentors are scattered throughout this book. If you haven't been introduced to the miracles that are David Dodson, James Joseph, Margaret Mahoney, John Nason, and Paul Ylvisaker — among so many others — you are in for a special experience.

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When I first started interviewing philanthropic families in the mid-80s, I used to ask them why they had made charitable giving a priority and what they hoped to do with that giving. I remember being frustrated when they invariably answered "to give back" to the first question and "to make a difference" to the second. I didn't understand how those seemingly vague responses could help me better understand this diverse field. When I got a little older and, thankfully, a tiny bit wiser, I realized what they were telling me. They were giving back out of gratitude and their hopes to make a difference were born of optimism. Gratitude and optimism. Not bad qualities to bring to family foundation work. Not bad to bring to a new book to support those families either.

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Annie Hernandez
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Richard Woo

NCFP Staff

Jason Born
Marlene Corrado
Maureen Esposito
Michael Goodman
Kirkland Hamill
Sally Jones
Kylie Musolf
Rachel Ogorek
Brianna Suarez
Neil Sumilas

Design and Production

Gabby Rojchin
Jamie Sabat
Maria Sese Paul

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ABOUT THE **NATIONAL CENTER FOR FAMILY PHILANTHROPY**

INSPIRING GENERATIONS OF GIVING

The National Center for Family Philanthropy (NCFP) is the only national nonprofit dedicated exclusively to families who give.

Families work with NCFP at every step of their philanthropic journey to learn how to transform their values into effective giving that positively impacts the communities and causes they serve.

Our Mission

NCFP works to promote philanthropic values, vision, and excellence across generations of donors and donor families. Our understanding of and experience with the very personal act of giving ensures that donors and their advisors have access to the highest quality information and the encouragement needed to:

- Articulate, pursue, and achieve their charitable missions;
- Understand and meet their governance and management needs; and
- Have a significant, positive impact on the lives and work of those they support.

Who We Serve

Families turn to NCFP for advice on setting up and managing their giving. Whether you manage a foundation or donor-advised fund — or use a family office, family business, or combined approach — NCFP's resources, research, and advice will help you get the most out of your giving.

NCFP also helps organizations and individuals who support giving families – including regional associations of grantmakers, national philanthropy groups, community foundations, financial and legal advisor firms, philanthropic advisors, family offices, and consulting firms.

How We Help

NCFP offers families and their advisors a wide range of programs, services, and research designed to help them get answers to their most pressing questions and gain insights that will help them give confidently and effectively.

With NCFP, families have access to:

- **A robust online Knowledge Center** — NCFP offers the world's largest searchable database on family philanthropy – which contains thousands of downloadable resources such as articles, case studies, sample policies and forms, presentations, reports, and more.
- **Conferences and events** — Each year, NCFP offers a range of events — from small, customized training sessions and retreats to large conferences — each of which gives families the opportunity to discuss sensitive issues in a supportive environment.
- **Timely research** — NCFP's Trends in Family Philanthropy survey offers insights into the practices and trends that are shaping the field.
- **Consultation and facilitation** — Our experts work privately with families to effectively manage transitions, address family dynamics and create effective foundation boards.
- **A national network** — We connect you to a supportive network of giving families who share resources and experiences and work together to maximize their impact.

Learn More

Find out how to become a part of NCFP's growing network by visiting us online at ncfp.org or contacting us directly at ncfp@ncfp.org. ■

NATIONAL CENTER FOR
FAMILY PHILANTHROPY
1667 K Street, NW, Suite 550
Washington, DC 20006
P: (202) 293-3424
F: (202) 293-3395
ncfp@ncfp.org