Effective Governance: Principles, Policies, and Practices

A *Fundamentals of Family Philanthropy* webinar recorded on April 8, 2021.

NATIONAL CENTER FOR
FAMILY PHILANTHROPY

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Transcript of the Fundamentals of Family Philanthropy webinar, Effective Governance: Principles, Policies, and Practices. Recorded on April 8, 2021.

Nick Tedesco:

Welcome everyone. My name is Nick Tedesco, and I'm the president and CEO of the National Center for Family Philanthropy. Thank you for joining us today for our monthly Fundamentals of Family Philanthropy webinar. The series provides guidance on the core tenants of effective family philanthropy —from motivations and values, to governance, grantmaking, and succession. The series is also designed to equip giving families with the latest information on evergreen topics in the donor life cycle through practical takeaways and diverse family stories that illustrate important practices.

Family philanthropy is rooted in the act of collective decision-making, one that is often codified in a formal governance structure. Families that are intentional about developing a governance framework are often better prepared for decision making, and can work more collaboratively together. Today, we'll learn about effective governance structures and explore the principles, policies, and practices necessary to ensure good governance in a family philanthropy effort. In today's webinar, we'll explore three critical questions. The first, what is effective family governance. The second, what are the phases in the development of a family governance system, and how do you determine which phase your family is in? And lastly, why is effective family governance important to a family philanthropy effort?

Before we get started, let me briefly share about our webinar technology. We want this webinar to be interactive, so please submit questions for the panelists. To ask a question, please use the question box on the current slide. When sending in a question, if you wish to remain anonymous, please indicate that. And as a reminder, this webinar is being recorded, and a replay will be made available to all attendees. If you experience any technical issues, please reconnect to the technology or email jen.crino@ncfp.org. As always, you're welcome to chat with us on Twitter about today's webinar using the #ncfpweb.

Let me briefly introduce our panel before we move into the discussion. Today, we're joined by two incredibly esteemed experts, our very own Ginny Esposito, Senior Fellow and founding president of the National Center for Family Philanthropy. And Patricia Angus, founder and CEO of Angus Advisory Group. Patricia will begin with an opening presentation on effective family governance, and then Ginny and Patricia will dig deeper into the topics and take your questions during the discussion. We're so thrilled to have you all join us for this discussion and are so grateful to the speakers. So Patricia, I'll invite you on screen and would love for you to move into the presentation.

Patricia Angus:

Fantastic. Thank you, Nick. I'm delighted to be here with old friends and new. Feels a bit like a family reunion when I'm back with the National Center. I feel as though today going to be the highlights of my experience of almost 30 years of working with families on governance and philanthropy and related issues. I think there's enough awareness today that governance matters. And really our goal in keeping with the fundamentals of family philanthropy that NCFP is so great at making sure that your community is aware of, that we're going to be very high level, but provide some practical ideas for everybody.

Family governance mechanisms is what the academic world talks about when they talk about family governance. And we're going to talk about what those are. Those are basically the building blocks of family governance. And I would say that that's really where most of the emphasis on family governance today lies. Then I'll share a little bit of my observations on why I think that's an important starting point, but not enough to get you where you need to be as a family. Then talk about effective family governance and my approach to it, which is the pyramid.

So what are the building blocks of family governance? Probably the people on the call have heard about the family council, the family assembly, and the family constitution. These are sort of the triumvirate of family governance, and without these, you don't really have much family governance. And with these, you may not have much family governance.

So what is a family council? What is its purpose? The family council is generally a small group of family members who are elected, appointed, volunteered as I like to call it, to sort of become the central leadership group on the family's side of its collective endeavors. The family assembly is much larger than that. The family assembly, as I was thinking about this today, made me think about our assembly when I was in elementary school. And every Thursday morning at 10:00, I remember these as though it were yesterday. We would have an assembly in the assembly room, and everybody would get together. And what was the purpose of the assembly? The purpose of the assembly was for everyone in the school to hear the same thing, at the same time, to feel as though we were a collective community, and to be entertained sometimes, to honor some people. But really for the entire community, that's what the assembly was about.

And in a family, a family assembly serves the same purpose. It serves the purpose of having all family members together whether they're in philanthropy together or not, whether they're in business together or not, whether they actually share investments with the family anymore. Those aren't the most important things for a family assembly. Being a member of the family is the most important thing. The council generally leads the assembly meetings, it generally organizes them. Hopefully with input from the family on what they're looking for, what they need right now. Assemblies are usually once a year, and councils are probably working in some cases every quarter, sometimes every month, and occasionally every week.

A family constitution as it sounds like is usually the document that the family has collectively written to determine what it wants to be in the world and how it's going to operate together as a group.

So if you think about our constitution as a country, our constitution not only talks about our guiding principles, but it also created the three branches of government and it created all of the checks and balances in it. So a constitution for a family is more operational than say the assembly. The assembly often has a lot of social time together. It recognizes that families who stay together socially often do better together in a business or in their philanthropy. The constitution formalizes that, operationalizes it.

So why do I start with these? Because that's where most people start today when they talk about family governance. And unfortunately, that's where some of them may end. So you might have a family council, you might have a family assembly. You might even have written a beautiful constitution. Or in some countries, it would be considered a family charter or family protocol. A lot of people in Europe and in South America prefer to use the protocol approach.

But what happens with that? Is it truly governance? Well, I've got a couple of really high tech visuals there for you. On the left is my experience with a lot of families, despite the fact that they have a council and assembly or a constitution, or if they don't. And everybody knows one person is in charge. And that person may not even be alive. Everybody might still be deferring to the grandfather who's been gone a long time ago or the grandmother who's at the kitchen table really telling everybody what to do. That's the way it often works.

On the other hand, on the other side of my very high-tech visual, you have the way that families operate when they've been told they need some governance. And they've been thrown together, whether it's in philanthropy or thrown together in a family business. And often at the sibling phase of a family, but can be aunts, uncles, nieces, nephews together; they haven't really figured out how they're going to make decisions together. So the visual on the right shows you my experience. And I have had families where things have actually been thrown in meetings.

So governance can be messy, and people trying to make collective decisions can figure out different ways to do it. But the visual on the right is sort of a warning for you. So what have I observed with people who have understood that governance is important, have understood that the family is working on a lot of things together, and what do they need to do to make it work well?

One of the big mistakes that people make is they use the wrong forum for the wrong decisions. I recommend using the right forum to make better decisions. The business shouldn't be making the philanthropy decisions unless it's a philanthropic arm of the business. When the family has philanthropy and it has a business, you need clear roles. The CEO of the business makes decisions on the strategy and the long-term vision of a business that's going to go forward. And the decision makers are not necessarily family members who are not owners. Or even if they are owners, they need to know.

So I use a case in one of my classes where there was a member of a family business. And she was an owner. And she was concerned that she didn't like the way the business was going on after her father died. So what did she do? She didn't really get a job, but she showed up at the office, and she showed up the office and started telling people on literally a factory floor how to do their work. And she actually fired somebody who she had no authority to fire whatsoever. And that sounds really trite. And it sounds like it doesn't happen often. But it happens all the time. What she confused was her role as a family member and as an owner with the role of managers.

It would be the same thing as somebody going into a family foundation's grantmaking process. Maybe it's just a family member who shares the family name, and decides that in their local community, people think that they represent the foundation, that they represent the family in its philanthropic work. They don't really have the power to decide unless they're on the board, or unless they're working in the philanthropy. Clear roles, proper decision making.

Transparency is a big issue in the philanthropic world today—making sure that the grantees know how decisions are made. It's also really important on the family side. From my experience, the people who are most engaged, whether it's in a business, whether it's running the family trust, or in philanthropy, often feel that they don't have an obligation to tell other family members what they're doing. It takes them too much time to explain what's going on. But in fact, by explaining things to the rest of the family, it can increase trust within the family.

So I think about a family where the foundation was like a black box. The people who were allowed to be in the foundation went to the meetings once every quarter, made their decisions. And then other family members found out from their neighbors and friends about what grants had been made. Didn't help with trust within the family. There has to be some transparency on how those decisions are made. And when you have more trust, you have more enduring decisions. So remember, we talked before about the assembly, right? So the assembly is the group that effectively has the responsibility to elect a council or to appoint a council. If the family decides that they want to have three council members, and suddenly they hear that there's five people who are really making all council decisions, you're going to lose trust. And then the decisions of the council might not be held as forcibly by the rest of the family.

Principles I'm going to talk a lot about in a second. I see that families forget about principles. They talk about values, and they can change across generations. And until you have the conversation about them, you may not have the alignment that you need.

Inclusion in terms of family governance is really big. Especially if you have an active family and philanthropy together, you run the risk of the in-crowd and the out-crowd. So people know there has to be governance. They know they need a board. And then the board sort of shuts everybody out. Not so great.

And the last concept that I think is really important when you're thinking about family governance is to make sure that the de facto way that you work as a family is in line with de jure. And what does that mean? De facto means what actually happens. De jure says what are your bylaws? What are your articles of incorporation? What have you told the IRS? What does 501(c)(3) information say? They have to be in line.

All too often, a family will appoint certain members of the family to have authority to act on behalf of the family or on behalf of the business or the philanthropy. But everybody knows that even though they're appointed, they're going to defer to somebody else. From my experience, the way the family operates isn't the way that their structural agreements have said that they're going to operate. So to be more effective, that's important. If you can go to the next slide, I've sort of given you some ideas here. You've got the building blocks, you've got some best practices. What makes family governance effective? You need leaders. And you need leaders that are going to listen, that are going to be diplomatic. And that are not interested in just using their own agenda.

I had a student who did a study on family councils as an independent study last year. And it was fabulous. He went and interviewed some people who had had family councils for a short period of time to a long period of time. And with those three really great case studies, his three conclusions were: leadership, leadership, leadership. Which is that it's great to say the family is going to get together once a year. But who's going to make it happen? And who's going to be given the authority to make some decisions on where it's going to happen, and why it's going to happen, and what the agenda's going to be? That leader needs to receive input from the rest of the family to be respected for that.
There's a lot of research that has gone on family business in terms of governance, but not a lot on family philanthropy. And what they found in family business is that families who set up those building blocks that we talked about before and that have a mentality of a transgenerational orientation. Meaning they're not just saying, "This is what the founders did 100 years ago, and this is what you must follow." It says every generation matters. And we want to last beyond our current generation. As a family, in philanthropy, in business. Whatever it is, they tend to be more effective. Leadership I've said again on the slide, just because it's so important.

Inclusion, all too often families today as opposed to 20 years ago are saying, "We need to govern." And then family members who are not involved in the day-to-day of their philanthropy or of their business are using the family governance roles they've gotten to exert power over other family members, and actually to create exclusivity and not inclusion within the family. Very dangerous. Really something that you need to do.

And the other really important part that the student found in his independent study and that I have noticed is education. And education doesn't mean just site visits. And I know everybody on this call is really interested in family philanthropy, and that's really important. But you need education. As I say in the last point here, why are we doing this? Why are we doing this together? Why are we doing this as a family? Why do we need to be a family over time? Not just what. Okay, we chose that we wanted to give to charter schools in our local town, and we get to go see them. That's not enough, and how we've decided we're going to do advocacy as opposed to direct service. It's not enough. You need to know the why. And education really has to focus on that.

On the next slide, you'll see the pyramid that I created back in 2003, and with the help of NCFP published it in 2004. This is what was missing then. And I would argue that it's still missing today. And hopefully, I've built some building blocks to get us to this point right now. A forum is not enough. A family assembly is not enough. You need to know why you're doing it.

And when I see families today who thankfully have created some of those mechanisms that we've talked about, what I see missing still to this day is a sense of guiding principles. Why are you doing it? There's a lot of focus on values. But principles are different from values. And I've been spending the last five days trying to figure out how to explain it on this webinar. And I have to say, I don't have the pithy response to the difference between principles and values. But I can assure you that it makes a difference. And I'll talk about that in a second. But once you've got these guiding principles, then you figure out what policies are going to be necessary to make them happen. What are the parameters?

So for example, a principle is that we think that all people should be treated equally. Okay. The policy is every time we make a grant, we make sure that the organization that we are giving it to aligns with this principle of equality of treatment, so that they won't have some people they serve being treated differently from others. Sort of a guiding principle put into a policy. And then on a day-to-day practice, how do you make it happen?

Let me talk for a second about the difference between principles and values. I went back and found something by William Safire, which the older members of the group will be familiar with, I'm not sure about the younger members. But William Safire wrote a column in the New York times that was fabulous because it was about language. And language matters. He had a piece in 1984 about principles versus value. And what he says is that principles are really the starting point. It comes from the Latin principium, meaning the source, the origin, the beginning. Principles are a primary truth that are the basis for other beliefs. And then they relate and they get translated into rules for conduct.

Having been trained as a lawyer, this came to me very naturally. And that's the way I see it. I find that families who are trying to figure out how to work together don't quite understand the role of guiding principles. So thinking of it as a fundamental truth from which everything else sort of derives helps you figure out why it's important to have the principles behind your policies and your practices. Values as he says, are rooted in the Latin word for strengths. And they actually were originally meaning material worth. What's your value? How much money does make for you? And he notes that in about the 1930s, psychologists and sociologists took over that. And I would argue even today, we have a hard time getting people to think back to principles versus values.

Values are not about intrinsic worth, and they're not the things that other things sort of come out. And they're not necessarily universal. So in your family, think about what are your guiding principles. Say you work for a family foundation. Do they know as a family what their guiding principles are going to be? And does that help you when you run the foundation or not? I can't tell you how often I've worked with people who have really great philanthropic work that they're doing. But it is not linked in with the rest of their family. It's not linked into the principles of their family. And it leads to confusion across generations. If you have a transgenerational orientation, you've got to have guiding principles behind what you're doing.

I always go back to the constitution. It starts with, let's see. "In order to form a more perfect union, establish justice, ensure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, therefore we do ordain and establish this constitution." Families need to start at that point, start the principles, and then you get onto the rest of it.

I've given you a very lofty set of ideas right now. And I understand that theory is as good as the paper it's written on or the pixels that it comes out on. How do you get there? So my observations 20 years ago are no different from my observations today. Families tend to fall into three phases of development of their family governance. You've got chaos, got coordination, and the cohesion is really a phase of continuity. So what does chaos mean?

I use a case in my class for my MBA students on the Pritzkers. The Pritzkers by the year 1997 or so had 15 or $16 billion worth of businesses. They had major, major businesses around the world. They had probably 10 to 20 family philanthropies. They had a number of probably family offices. And they had two of their elders who told them how they wanted things to go.

So you had a moment when they were all called together for what they called a family meeting. And you had 12 or so family members who were told, "This is how your trusts are going to be used for the next 50 years. You're not going to be able to get more than $200,000 out of it per year. And maybe you'll get $2 million by the time you're in your thirties." These three people Nick, Penny, and Tom are going to be the triumvirate who are going to lead this forever. All of this was the dictate of Jay Pritzker.

From the outside, it looked beautiful, it looked coordinated, it looked cohesive. Jay and his brother Bob were known for the values that they represented. They representative frugality, they represented education. A lot of those values trickled down in the family. But they weren't really collectively agreed. What happened? Jay died, and within months, the family was trying to figure out how to undo what he had created. So it appeared to be together. But in fact, underneath there was this sort of chaotic undercurrent that was happening.

To get to coordination, they did get there eventually because they had to get together. They had to have family meetings. They had to discuss what are our principles as a group. They had to get together and figure out, "Okay, if we do philanthropy, do we do it together? Or do we do it apart? If Tom's going to be in charge of the business, what's Nick or Penny going to be in charge of?" They had to figure out who was going to be in charge of each area. They needed organization around it. They needed their family offices to figure out how they were going to work with each other.

The Pritzkers, in the end, decided to divide apart. Other families will decide to stay together. And in the cohesive phase, with regular family meetings. They have social time as well as time to think about their philanthropy. They work together on what their business ventures are going to be. They have definitions of who their family will be. And that's a tough one. I know that NCFP has focused on this. Is a spouse entitled to be able to be on a board of a family philanthropy when the rule is that it must be a family member? Is that okay? Is that legitimate?

So you get to a cohesive phase when you've got the principles tied together. If you can go to the next phase, this is sort of where the rubber hits the road for everyone on this call, and the families that you're working with, and the philanthropy that you represent. I have a number of questions and questionnaires that we will be publishing through NCFP soon. These are just some examples of the questions to ask yourself.

And why do I think these matter? Because from my observations and from the research, which I hope we will be doing more on the family philanthropy side, but there is enough transferrable research on family governance today to talk about what will make you successful across generations in all of your collective work together. If you can get to the cohesive phase, you'll be golden as a family. If you stay in chaos, things will fall apart, and it will cost you a lot more in terms of emotional energy. And you will risk losing the opportunity to do something larger than yourself, which is really what this is all about.

So ask yourself, have you ever had a family meeting? Very often I'll work with philanthropic families, and they've never met as a family outside the philanthropy. Something to think about. Do family members know the family's guiding principles? The answer I get on this one is often, "Yes, our grandfather and grandmother said that these are their values." That's not exactly collective. And one of the things you'll find on a later slide is that younger family members want a voice now, and they want a vote, and they want input onto what the guiding principles are going to be.

How are family decisions made? If you think about the Pritzker example—unclear, sort of dictated by the patriarch in that case. When you get to a cohesive phase, you know where the family philanthropy decisions are made, where the family business decisions are made, and where the decisions as a family for what the family is really matter. Does the family have a forum for discussion?

I met one of the Rockefellers many years ago at the Asia Society. And somebody posed the question to them, "How did you learn about philanthropy in your family?" And I think the other people in our group assumed they were going to say, "I went to conferences and seminars." And they said, "Well, we sat around our grandmother's kitchen table on Sundays," or not kitchen table, dinner table. "On Sundays. And that was a part of our discussion." If you think about that as their room for discussion, figuring out where you're going to have the rooms for your discussions is a really important.

And the informality of decision making, your last question down here. My family's just as bad as any. And we have a shared home that my students and many people around the world have heard about. We make informal decisions all the time about it, and we forget to tell each other. That doesn't work when you have stuff that you want to have last across generations and when you're having an impact on society, as you do in family philanthropy. So you have to have clear lines of authority. And I'm not saying that just one person has to decide. You have to know how decisions are made and for what purpose.

So this is a quick visual just showing the people who are on the call today what it can look like that can be organized. Personally, my blood pressure goes down when I know a family has these number of things that they have ordered together, and structurally that they're working with. Too often, it's just sometimes we meet, sometimes we don't. Our family office only deals with philanthropy, but doesn't know about our business. Or yeah, the family assembly, we had a reunion 10 years ago isn't that enough. Really needs more organization.

So why is it important for family philanthropy? I've been talking a lot about larger things that families do together. But this is really to remember. In the social contract which was originally written about in the 16th, 17th centuries. And it is the basis of the U.S. government and I would say in every society. You have to figure out what is government's role. How do you give up some freedom? And how do you get some security back for it? In our system and in most systems around the world, the government is providing for society's needs, and the way it funds that is through taxes. The private sector in terms of the for-profit sector is the business enterprises that are so fabulous and so wonderful, and delivering products and services that we all need for a profit.

And then, the wonderful independent sector of which philanthropy is a part plays a bit of a bridge. It does the work that governments can't do, and it has the authority to do so because it is given the tax benefits. And it has the legal structuring that the system in which you are working has given it the authority to help with society's needs. It's really important. Family philanthropy is a critical part of what's going to hold us all together. And I've written about this, and I've talked about it a lot lately. I think we are at a fundamental inflection point in what the social contract means for our society today, and what the balance of these three sectors are. And I would say the third bullet point here is really important. When a family is thinking about its philanthropy, it has to have some guidance towards a higher goal. That's that guiding principle concept. If it's just about, “Okay, our family just needs to get together and we want to stay together. Therefore, we'll set up a foundation to do it." You're never going to reach the level that society deserves and what you can attain.

In the article that I'm writing, I've quoted John F. Kennedy with his very famous words of, "Ask not what the country can do for you, ask what you can do for the country." I would say that today in family philanthropy, the big question is ask not what society can do for you, ask what you can do for society. And I think it is a missing link. When people talk about family governance, it can get awfully insular. It can just be about the family. When they talk about family philanthropy, it can be awfully insular. And the families that I know who are looking at this higher level and the families who have guiding principles that can reflect the balance of the social contract that we are living in right now, not only will they be more successful as families operating with each other, but the societal impact will be far greater.

In the business world, there's so much talk right now about shareholder, primacy versus stakeholdership. You may have heard that in 2019, the Business Roundtable in the U.S., which is probably the most powerful voice of the business sector, said, "Okay business, it's not just financial returns that we're looking for. What we're looking for is your role in society. We need to be accountable to employees, to vendors, to customers, to our owners, to the society around us." And I think family philanthropy has always had a stakeholder view. But in the families today, they need to think about what is the stakeholder philosophy going to mean to them in family philanthropy.

Here are practical tips for you. Keep asking why. I can't tell you how often I've met with families who've had some really great governance set up for them. And then they say to me, "I don't know, we have a family council. We don't know what it's here for." Or, "Well I don't know, family assembly, I guess it's like a family reunion. I'm not sure." Focus on why you're doing it. Open communication. Beware of the in crowd and the outside. Making sure your family meetings are productive, have something that you're actually doing, or you will lose your younger family members. They need action. Revisiting your principles and your policies every few years. I think some families revisit it every 300 years. I recommended a little bit more frequently than that. And having some consistency to your practices.

And I've added some closing thoughts on the next slide. I would say that it's harder to focus on governance today than ever before. January 6th is an important moment in history. It was not about blue states or red states. We had people who breached the Capitol, which is the symbolic and the physical home of our elected officials. Governance is under attack. Not just in the U.S., but around the world. And I think that governance within families needs to lead the way and can lead the way.

And I'll leave the rest of those just for you to think about. I think Ginny, if you'd like to join me now, we can have a conversation about this. While you're joining, I emphasize the last one. As an outsider to families and having consulted with families for years and years, I can't lead it for you. I can't lead it for the family foundation people who call me, nor can I lead it for the family. So the family needs to lead this on their own. So Ginny, let's have a chat about this.

Ginny Esposito:

Thank you very much, Patricia. Thank you for all of that. And I have the benefit of having taken a look at the early draft of the paper, and it was a benefit. One of the things that really stuck out for me is you making the case that a sense of community is essential to a joint endeavor to succeed. And this reminded me in Generations of Giving, the study that we did on how philanthropy passes from one generation to another. We wrote that, "Grantmaking can succeed without a common dream. Governance cannot."

Now you've talked a lot about guiding principles. You're talking about the fact that that sense of community is essential. We know that families' philanthropies tend to start very informally. And because of the few people that are at the table, it's really easy for families to begin thinking of how can we accommodate our individual interests, our personalities, how do we accommodate branches in generations. And almost implicitly in an effort to accommodate, we start splitting the family up.

So when you say to a family, "Well a sense of community is critical," how do you recommend they work toward that sense and avoid some of that bifurcation that happens sometimes quite naturally, sometimes to do what is fair. And we can have a whole different webinar on fairness. Sometimes people do it just to divvy up the work, and it grows from there. So it may start off in very benign ways, but it can escalate. So how do you keep family focused on that sense of community? What have you seen in addition to this, the critical notion of the why and the principles gets the family to communicate?

Patricia Angus:

Such a good, complicated question Ginny. And I think it's especially complicated in the family philanthropy world today. And I think part of the reason, why is it difficult, and how do you get over it? Why it's difficult, families are told it's their money. It's your money, do what you want with it, right? Even though they've already transferred it over into an entity, whether it's a donor advised fund, or into a private foundation, or an operating foundation where it's theirs, but it's not.

I think a lot about the ownership concept. I own my house. I don't own a foundation. And getting your head around what you own and what you don't is really hard for people in a culture, especially in the United States where ownership means so much. So I think it's hard because of that. It's hard because families are told this is a way to keep your family together. And in a way, I miss the days, Ginny, when we met, and people really weren't told so much about philanthropy, and they weren't encouraged to do philanthropy just to keep the family together. I think the message now is we want to have multi-generational family wealth. We understand that wealth is more than money. And one of the ways you can do it is doing it together. So I think it's too small a calling. The higher calling is what I say. And I think what we both agree on is principles, not personalities. It should not be just about the family. It's never just about the family. And that's a bit heretical to say out there.

If you think about my wonderful example of the U.S. Constitution and the government that was made, 55 men (only men could do it) got together in the summer of 1787 to create this amazing government that we have in the U.S. Imagine if they did it the way family philanthropy is often done. What we would have is we'd have a Madison branch, we'd have a Hamilton branch, we'd have the George Washington branch, and maybe a few others, right? We wouldn't have these guiding principles that I read before. And we wouldn't have a structure of government that could have lasted as long as it has.

So Ginny, I would recommend that families start thinking that way very soon. What is it that we're going to have that's enduring? And the branches are not the enduring thing. The principles are the enduring thing. What do we want to create that's larger than ourselves? And it's really hard. Governance is really hard today, because people don't want to give up the power that you have of your own person. And to give it up to the collective and say, "Okay. As a family, we believe these things are self-evident. And we will abide by that over time." It's very different from, "My branch gets 30%, your branch gets 30%, and our brother gets 30%." It's a completely different way of thinking.

Ginny Esposito:

So then let's take the question from the other side. You talk about the interplay of all of these different activities but giving the foundation its priority, its due. Many people, especially those who may have sold major assets or whatever, the foundation may be the only place left organized where they may come together. And as such, we've both seen the foundation being given the burden, the opportunity of being the vessel for family unity and keeping the family together. And sometimes, it seems that holding the family together is too much to place on the foundation. Say a little bit about the foundation's opportunity for family cohesion and for family energy around these themes. But not pinning every hope of family togetherness on that foundation.

Patricia Angus:

It's almost like the underbelly of being an active family who either has a business, or a foundation, or a family office, has the same issue that you're talking about. I run into it with family offices. And people say, "Well, family offices will be the glue for the family." I don't know Ginny—you're in a big family, I'm in a big family. No entity is ever going to hold us together the same way that our relationships are going to hold us together. And I think a foundation that is given that burden really runs the risk of watering down what the foundation can do to the community, which is larger than the family itself. And it waters down what it can do for the family at the same time. I recommend keeping the family work separate from the foundation, and I think it deserves the attention.

And I haven't written a lot about it, and I think it needs some more attention. But when you think about it, family was women's work for a very long time, right? The woman was in charge of keeping the family together. And that didn't require structures, and it didn't require entities, and it didn't require philanthropic foundations. It required someone to say, "You will get together, and you care about each other. And we will show up for each other. And these are the values that I'm living, and these are the values that matter." I think today, it doesn't have to be just women's work. I think it's everybody's work. And I think that's what's really cool about it today. But recognizing that it needs attention.

I've spoken on panels where people talk about asset protection. And they say, "How can a family protect its assets?" And they want me to answer that they should set up a trust in Alaska or one of the other states that has really good asset protection rules. And my answer is always go on vacation together, have fun together, like each other. And also know what you're going to do together and what you're going to do apart.

I think just because you have a family foundation that has endured for 20, 30, 50 years, doesn't mean that you're still going to be a cohesive family around that. But know that, and acknowledge it, and deal with it.

There's an expression in the family business world that really bristles my nerves. And they say that every now and then, you need to prune the family tree. Right? And what they mean, and I think in the foundation world, you're going to hear this as well. You need to prune the family tree. This branch is going to be in charge of the family foundation, and the other branch is not.

They're using the wrong metaphor, because the family tree is always going to be there. The family will always have been family by blood or otherwise. The foundation can endure and can have one branch involved with it, but not the others. But it doesn't mean you're taking family members out of being family. And knowing the difference between being family and being engaged in the foundation is really important. Everybody has to be really clear about that.

And family members, I unfortunately too often see the most powerful family members on the family side not having the authority they need to keep the family together, because the foundation people or the business people are running the show. And you have to give the family people some leeway to run that side. That make sense?

Ginny Esposito:

Yeah, it absolutely does. And it definitely shows why there's so much stress when the foundation may be for many people the only system they have set up that requires that the family come together. That the pressure of sustaining that can be really hard, both for the family, and definitely for that foundation.

Patricia Angus:

And you know Ginny, something I think we have to be honest about, and maybe I'm just taking too much true serum lately. But we have to acknowledge power. And I think people talk about power in philanthropy a lot, which is really important. What is your power as a donor to your donee, and how do you make sure you have a more equitable relationship between donor and donee? And we have to be a little bit more honest about power and families. So the people who can run the foundation or who have more say in the foundation within the family and outside the family end up appearing to have more power. And that's often where the tension is as well. And what does that mean? Are you okay with just being family, or do you need more power than the others? And if so, how are you going to sort that out?

Ginny Esposito:

Really good point, questions of eligibility. I remember when I first started learning about family business and trying to apply that to family philanthropy, I learned that if you're a family member and you work in the business, there are absolute expectations for your performance. There are absolute expectations that shareholder value and these kinds of things are going to be sustained.

In the philanthropy, what I found was that people were not as careful about ensuring that capable people were in these positions. But also, that the capable people can be found in lots of places. And it didn't necessarily mean you're going to get equal numbers from branches, or generations, or whatever it was.

Patricia Angus:

It breaks my heart, probably breaks your heart when I hear people say, "We'll just have them run the foundation because the stakes are low there. Or we'll let the family practice investing in the foundation because that's not as important as the family money." And that is just such a sad commentary I think on how people value philanthropic work.

Ginny Esposito:

And one of the things that I'm spending a lot of time on now too, though, is ensuring that people can come to the table and be valued for what they may bring. A real sense of community, a real sense of empathy, a real sense of process. But it also talks about, we can do this on another occasion, why it's so important that the board chair to be capable.

You talked about phases of development, and chaos, and coordination, and cohesion. And I think probably when people were looking at that, they were immediately placing where they think they are. Or maybe in one area, they're very cohesive. But in another area, we're lucky just to be coordinated.

The phrase I always use is how do you build the board this foundation deserves? If you're absolutely committed to moving to cohesion, how do you break out of the long-standing patterns that have you in chaos, or that coordination is just fine. It's just okay.

Patricia Angus:

It's fun to teach this concept to MBAs, because they're always trying to shoot for the cohesion level. From my experience, it's the A-plus students always looking for the extra credit. Often the most cohesive families are ahead of themselves. And they're saying, "I want to teach my kids about trusts." And I'm saying, "Your kids are five years old."

The others, I think it's more recognizing where you are. I think it's just like any developmental model. Know where you are today and acknowledge it. And it's okay, because it's threatening to say you're in chaos. And I used it a bit tongue in cheek in the original model, because it's not that chaotic. People's lives sort of make a lot of sense, and they've got foundations they're working on, and they've got other things they're doing. But recognizing that it shouldn't take a crisis to move from one phase to the next, and crises are often what trigger people doing it. And I really wrote that when I had observed enough people say, "Oh my God, dad died. Now what do we do with the foundation? Oh my God. Our mother just doesn't want to do this anymore. And how are we going to do it?"

So to move along, know where you are. Lead it, but with allies. You can't force your family into cohesion. I don't know about your family, but my family can't be forced to do much of anything. So you have to make sure it's an inclusive process, right? We all joke about what's the sign of success of the first family meeting? Having a second family meeting. I have met far too many families who say they had a family meeting 10 years ago, and half the family isn't talking to each other anymore. And that's the issue of having an outsider help guide you. As I said, the family has to lead it, but the outsider can guide it and can help them get there. I think that's important.

Some practical things you could do is sending out polls. Where are you with where we are today? "Where do you see that we need to be?" Board training. I am a big believer in board training. And I think that board training is just for the outsiders, and not just for the family members. I personally think that one sign that you're in cohesiveness is that you don't call it independent directors and family directors. Because all directors have the same fiduciary responsibility for a foundation. They have the same fiduciary responsibility for a business. And by distinguishing between family directors and independent directors, you've created a false dichotomy. So I think that in order to get in that more cohesive phase, you recognize the role as opposed to the person. And I think that's really important.

I also am a big believer in the liberal arts. But I think we are not tapping the world's wisdom enough as we need to. I think people are getting very good at tactical solutions. There’s a book, I think it is focused on family philanthropy, not published by NCFP. And it talks about governance as leadership and management. And that's not high enough. It's just not. Management is the day-to-day, and governance is the long-term. I always go back to governance being guiding and steering. And collective decision-making is yes, a big part of what's going on. But what direction are you heading in?

I remember the first time my cousin said to me, "You don't know where you're going. Any boat will get you there. Any road will get you there." Collective decision-making could get you going in circles for years unless you have some guidance and some steering to it. So cohesiveness, you've got to have that. Board training, holding board members accountable. That's a really hard thing for families. Holding family members accountable in family governance, you know? Okay, you joined the council Ginny. You haven't shown up for the last three meetings. What do we do about that? That's a tough one. And maybe you joined it because you're the oldest in that family branch. That's fine, but that's not what this family needs, and it's not what the world needs.

Ginny Esposito:

You raise a whole lot of things in there. My experience is that families really can come up with what is good practice, but it's hard to enforce the good practice. That's one of the reasons I always recommend putting some of this in writing so that you have a basis to say when that's not happening.

We have a question that starts off with the notion that we're being asked to be more accountable. We're being asked to be more collaborative. Part of that may even be looking to involve others outside the family within governance systems, to whatever extent your systems allow for that. The question as it concludes, reminds me of the time I asked my mentor Paul Ylvisaker who I thought was just the most brilliant philanthropic mind going.

And I happened to see him in the same venue with the chair of a board on which he was serving. And I really wanted to know what it was like to have this incredibly wonderful mind in the boardroom, and if he was obviously a non-family member of that board. So I said to the chair, "Tell me what it's like to have Paul Ylvisaker in your boardroom." And she said, "That's easy. We just behave better when he's there."

And then part of that is the company at dinner. And part of that is this person asked, could bringing more voices from the community even help build cohesion? It might build better behavior. But can it help? Especially those who are not sure that is it on the board? Can it be advisory committee? How did it get that outside help? And how does reaching out, being more collaborative, getting more opinions, more diverse perspectives, how does that help build or can it help build cohesion?

Patricia Angus:

Wow. I have lots of answers. How much time do we have? And I have lots of questions about it as well. If you go back to the idea of the principles as opposed to personalities, think of that as your guiding star in what you're reaching towards as a family. Then it's pretty unlikely that the family itself will have everything that you need in terms of a perspective to get you to that guiding star. If it had only been the George Washington family and they were a fabulous family who was creating our country, it probably wouldn't have been as amazing a government that they created. Because they saw things in one lens. So hearing other people's voices is really important.

I would say start within the family first in terms of hearing everybody's voice, and including the community is critical as well. So I have seen far too often that families squelch voices. And to me, it's really fun to figure out who the black sheep is, which is an expression that we just use, which is maybe not the best expression. But it's the voices of the unheard in the family. They're often telling the truth about the family and about what needs to be done. Create a mechanism so that those voices can be heard as opposed to the usual suspects. That's really important within the family. And I think diversity of inclusion, of voices starts within the family.

Then outside, we've talked about family governance, which is family that has philanthropy, businesses, family office together. They need to work on the family. Within the philanthropic side, they're the governance I would argue has to have other voices. Because the family can never truly know what the community needs. So in terms of its board, if you're not comfortable yet having community members on the fiduciary board, create an advisory board. That is your first step towards having a more cohesive voice in it. And make sure that the advisory board understands the guiding principles of the foundation. But you have to do that. The longer a family foundation goes without having outside voices, I would say the less effective it will become.

Ginny Esposito:

Okay. Well, the floodgates are opening. One question we have is a little bit of a follow-up on that accountability question we talked a minute ago. My thought in that conversation was that the more you've articulated what it means to be a good board member, the easier it is to hold someone accountable. As you said, if you don't have any rules for how many family meetings you have to attend, why is somebody breaking the rules? But what do you see as some of the best practices for evaluating family board members and holding them accountable? And by the way, I will say that I've seen that there's a follow-up question about how comfortable you are asking non-family members to be as accountable as family members. So the first one was what are some great ways for evaluating family and holding them accountable? And secondly, how comfortable are you that the same rules apply to non-family members?

Patricia Angus:

It depends on what you're evaluating them for and in what context it's happening. So let's start with the basic premise that you're talking about a board of a family foundation, right? How are you going to evaluate the board members? I would argue, and I think I'm in the minority on this, that family members should be evaluated the same way as non-family members, and that you should have qualifications from the beginning that are clear. I have families who I've worked with in the last couple of years, and I keep having to hold them back. They say, "We want an advisory board. And I've got this friend and I think he's great. And I've got that friend, and she's fabulous." That's fine. You're going with personality, not position. Right? So I make sure that we collectively create job descriptions for their board members.

And there will be some different characteristics you need from members of the family from non-members, right? Family members in general have to understand that they're representing the whole family, not just their branch, if you're on the board. That they represent the family's values, which will be more intrinsic to them than to the non-family members. Non-family members in general have more substantive experience in the area. So you have a few nuances that are different between family and non-family.

Self-evaluation, it's hard. I've been on boards where you have to evaluate yourself. What are you evaluating yourself against? And then I would go to some of the general metrics and the general expectations of any foundation board, not just a family foundation. Some of the governance best practices.

I keep calling “G” the forgotten part of ESG, right? So ESG, environmental, social, and governmental issues. We're big in that when it comes to impact investing, when it comes to social responsibility. “G” is the missing link in a lot of what we're doing right now. And there are governance best practices that you can learn from the UN, learn from National Association of Corporate Directors. You can learn from just directorship in general. Set your bar high when it comes to that.

So I'd say use the right expectations. Include some self-evaluation. I think you probably need some outsiders to be evaluating as well, especially because you could have family members who are dealing with other family members. The dynamics never completely go away. Term limits, not a bad idea. And a term limit doesn't mean you get to be the chair of the board until 10 years after you die. I mean, I would say that's probably too long.

So within a family, a term limit not too soon. I've seen some families go a little crazy on this. So they're trying to balance out the dynamics, and they're saying, "We're going to change the chair by branch every year." Well, then you don't have enough continuity. And you have to have an overlapping of starting points and ending points of boards.

Ginny Esposito:

You've made the board chairmanship an honorific that rotates rather than a capable position. And we've all seen what happens when a foundation got into trouble with someone that really wasn't up to...the phrase I always use, you have to be able, but you also have to be willing to do the hard work. And that includes sometimes going to a family member and saying, "You're not coming to meetings," and things like that. So there are dangers in having them be honorific type positions.

Patricia Angus:

I had the amazing opportunity of being on a board with a non-family chair, who it was like watching the ballet. The way he understood governance, he was calling all board members separately to find out what was going on, on their minds. He was sending agendas where he received input and getting them in advance of the meetings. He was keeping to the time clock. He was putting things behind when we couldn't make a decision. He knew what needed to be decided and what didn't need to be decided. It's a beautiful process when you have somebody in that chair role that can make everything work so well.

Ginny Esposito:

Let's talk about some of the things that you and I would say do not come into boardroom, but they sometimes do. Because we have a question. Now the person asked how do staff members deal with this. And I'm going to take a little privilege and say, because since I believe that the board chair and family take care of this first, I'd like to include them. But this person is genuinely looking to see what happens in a boardroom when family issues not relevant to the philanthropy come up or continue to come up? What's the role of the staff person in that? And as I'm saying, I would add what's anyone else's role to be clear about what is appropriate business and what isn't, and how to handle it when it gets off track?

Patricia Angus:

Yeah. I wish I could say that it's a rare occurrence.

Ginny Esposito:

No, it's not a rare occurrence.

Patricia Angus:

Not necessarily. That's where the family governance side of this matters. And I think distinguishing between who the family is and how they distinguish themselves from the foundation work is the first step to deal with that. So they need to be doing their work separately. So honestly, if you are a staff member or you're considering working for a family foundation, maybe one of the first questions you want to ask is how is the family governing itself aside from its foundation work? Because the better it is on the outside, probably the better it is on the inside.

The staff member, you've got the power issue, you've got the authority issue, and you've got the dynamics going on there. So it's a very difficult place for a staff member. Ideally, you would have a chair of that board, family or otherwise, who would create a safe space for the staff member to talk to about this. And then I think what has to happen is the family needs to do its work on what do we need to resolve outside of this room so that it doesn't show up in this room anymore. Really important.

Ginny Esposito:

And one of the things, you really are helping us understand more in terms of complex family systems, where there are family business interests or investment issues, and offices, and things like that. Is that there's a place for everything. When a family gets down to a point where many are where the foundation really is the only vehicle, I think you're helping them see though that you don't have to have a complex system to have some kind of separate system for family. For the family meeting, for family issues, even who's going to host Thanksgiving, I don't care what it is. But that you find appropriate places for these things to be held. And that somebody can punt and say, "I appreciate you want us to talk about Thanksgiving, but this is the foundation boardroom. Let's talk about that after."

Patricia Angus:

And that should be the habit. That should be the habit that the chair creates in that meeting so that people go, "Oh right, now I remember that belongs elsewhere." And it is a reflection that the family members of that board haven't done that other work. And even if it's the only thing they're doing together, I would say that members of a family who founded the foundation who are on that foundation board should be doing separate work anyway, even if that's the only thing they're doing.

Learning a little bit about family systems is really helpful. Because from what the research shows and my experience confirms on nearly a weekly basis if not a daily basis, is that occurrences from past generations, and from past decades, and past years will show up in those boardrooms, no matter what. And how you've addressed them will impact how effective your philanthropy is going to be. And it kills me when I see families sorting out the family disputes and dynamics that frankly their parents, and grandparents, and aunts and uncles should have resolved before them. And when that's playing itself out in the foundation boardroom, it's unfortunate for the staff because they can't do their job well enough. But it's also unfortunate for the family because they haven't had a chance to resolve it.

And what you learn when you look at family systems is that intergenerational anxiety keeps going along in a family until somebody says it doesn't have to be this way anymore. So there's probably some member of the family in that foundation boardroom saying, "We need to change this."

Ginny Esposito:

Right. There usually is. Technically we are supposed to be stopping, but I'm going to give you a question, and you only have one minute. And it's a question that has just come in, but I am really anxious to hear more about it. So I'm going to suggest that you tease it and then you go back and look at your paper, and make sure it addresses really well.

And that is that it is often, and I'm actually working with a family right now—we're in the first and second generation. They have these very specific guiding principles, especially about service, and what the foundation is for, and what it's not for. And you and I as you were just saying, these things are easier conversations to have as soon as you recognize they're on the horizon. Punting them to the next generation only makes them worse.

But this person wants to know if you're really committed to having good principles, and policies, and practices, how do you engage the second, third, and other generations, including those that may not be involved at all? So as I say, you only have a minute or so to tee this up. You can do a lot of great work on principles. How do those get communicated?

Patricia Angus:

Couple quick answers. I'll keep to them under the minute. Number one, the first generation's principles should never be all that prevail across the second and third. So you should always be considering that future generations have to have their input. Otherwise, they're not going to feel engaged. And it might be the same principle, just in a different application. So always have some extra space for other people to be able to include their input into it.

And I also don't believe that it's ever too young to engage younger family members. I think that the notion of the first generation doing its work for a full generation, then handing over to the second generation, and then handing the third, that's sort of yesterday's news. People are living longer. So that first generation is going to be around a long time. The second or third are going to reach adulthood while the first is still functioning.

Think about all generations together as opposed to first, second, third generation. I love “all-gen” better than “next-gen”. Another way to do it is you could operationally have junior boards, junior philanthropy. Separate for them, combining. But think about all-gen, and that gets to that higher level.

Ginny Esposito:

Yep. I think that's a wonderful theme and a wonderful way to begin to bring this to a close. I've always thought that next-gen sort of separated in ways that didn't have to happen. Well as you said, you have certainly given us some wonderful themes, and as John Nason would've said who wrote the book called *Foundation Trusteeship*, practical wisdom on how some of this begins to happen. And I want to thank you very, very much for this, helping us all build the board that foundations deserve.