NATIONAL CENTER FOR FAMILY PHILANTHROPY

SPLENDID LEGACY 2

CREATING AND RE-CREATING YOUR FAMILY FOUNDATION

Library of Congress Cataloging-in-Publication Data

Splendid legacy 2 : creating and recreating your family foundation /
Edited by Virginia M. Esposito
332 p. cm.
Includes biographical references and index.
ISBN 978-0-692-79254-4
1. Endowments — United States — Handbooks, manuals, etc.
2. 2. Charitable uses, trusts, and foundations — United States — Handbooks, manuals, etc.
3. 3. Family — United States. I. Esposito, Virginia M., 1952- II. National Center for Family Philanthropy (U.S.)

Printed in the United States of America

National Center for Family Philanthropy
1667 K St NW Suite 550
Washington, DC 20006
Tel: 202-293-3424
Fax: 202-293-3395
www.ncfp.org

CONTENTS

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.

***

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.

***

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.

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. ■

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.

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.