The Family Advisor: Management Issues for Family Foundations
Managing Your Family Foundation: Consider These Options

Looking for the single best way to manage a family foundation? You may be looking for a long time. Because family foundations are unique within the foundation world, there is no one-size-fits-all answer to management. Each family creates its own rules and structures for its foundation, allowing for a variety of management styles to choose from.

As different as management styles may be, there are similarities in the basic models family foundations use. Foundations choose among these models based on the following three factors:

1. The nature of the foundation's grantmaking
2. The skills, experience and willingness of its board members; and
3. The costs of management.

Weighing these three factors, family foundations can establish the management model that works for them. To begin this process, board members should answer the following questions:

Grantmaking...

- Will the foundation actively solicit proposals?
- How many grants will be made, and in which regions?
- Who can provide the expertise to assess proposals and complex nonprofit organizations?
- How many proposals will be reviewed and in what depth?
- How much monitoring and post-grant evaluation will satisfy the board and meet its goals?
- Will travel and site visits be required?

Board Members...

- Do board members have expertise in any specific area? If so, do they have the time and willingness to manage any aspect of the foundation's operations?
- Where do board members live, and how well do they know the nonprofit community in the foundation's funding area?
- Do board members want to meet with grantees and applicants?
- How much visibility do board members desire for the foundation and for themselves?
- How important is direct control of foundation administration to the board?

Costs...

- What level of administrative expenses can the foundation's asset base support?
- Is the asset base likely to change significantly in the near future?

Once a family foundation thinks through its grantmaking goals, its board member base and its asset base, board members can decide what management model best fits the foundation needs.

Below is a list of management models, categorized by internal, external and shared management. Many families use variations on these models or a combination of them.

Next to each option you will find advantages, limitations and tips to consider. The criteria for these discussion points is based on the following: cost, family influence, board time involvement, potential for public visibility and potential for power sharing conflict. Please note that these pros and cons are based on highly individualized experiences and may or may not resonate for your foundation. We offer them as discussion starters for your board when it considers its options.

You will also find quotes from your colleagues. As you read, remember that no family foundation is identical to another. Again, there is no "best way" to manage a foundation. Moreover, foundations frequently change their management model as they evolve.

INTERNAL MANAGEMENT

Management by Donor(s)

Often occurring in first-generation family foundations, this type of management usually gives the donor great control. The donors may engage part-time staff or rely on support staff within their own business or family offices for administrative tasks. For a list of family foundations that share staff with the family business, see last page.

Advantages:	This type of management reflects the donor's values and passions. The donor has full control over all aspects of the foundation.
Limitations:	Because this type of management limits meaningful involvement by family members, the opportunity for sustained family involvement may be restricted.
Tip:	If donors intend for other family members to become active board members in the future, they may want to orient those individuals while the foundation is still developing. This way, board members will gain interest in the foundation and the experience in order to later run the foundation with knowledge of the donor's intentions.

Management by Board Members (Family and Nonfamily)

Board members share responsibility for managerial functions. For example, one board member might keep the central records while another manages the money and still another handles correspondence.

Advantages:	This type of management gives board members the opportunity to learn the business of family foundations. Because everyone has a respective task, the board functions as a team, allowing every member to feel ownership of foundation activities. This style is also cost effective, as board members often volunteer or serve at a low rate of compensation. According to Al Castle of the Samuel N. & Mary Castle Foundation in Hawaii, volunteer family members "bring a passion, often a firm understanding of the donor's intent, a knowledge of their community and a clear sense of family values that are critical ingredients in the success of the foundation. Family volunteers can maintain family visibility and identity better, in most cases, than managing the foundation through a community foundation or shared management office."
Limitations:	Because board members may have varying levels of time, skill and experience, this type of management may yield uneven results. It can also create tension if board members do not complete their tasks in a timely or professional manner.
Tip:	Consider writing policies on administrative tasks.! Streamline functions by clearly identifying tasks and the people responsible for them. Create benchmarks to ensure that everyone meets deadlines and that the work maintains a professional standard.

Administrator (Family or Nonfamily)

Many boards hire or appoint a staff person to oversee the daily functions of the foundation. This person operates as administrator, manager or both. Typically, the administrator facilitates board action rather than setting policy or program direction. The administrator might handle correspondence and telephone calls, log grant requests, review and evaluate proposals, arrange meetings, visit sites and prepare materials for the board. This position may be full-time or part-time, paid or volunteer, and may carry different titles, such as director, program manager, program officer, or coordinator.

Executive Director (Family or Nonfamily)

Larger foundations often hire an executive director who sets goals and shapes programs for the foundation, recommending projects to its board. In some cases, the executive director acts as the lead supervisor, providing leadership to both foundation employees and the board. This position is usually paid, although it can be full- or part-time.

The Lois and Richard England Foundation in Washington, DC, decided to hire a director when family members recognized they lacked sufficient time to serve as staff themselves. Margaret Siegel, the foundation's director, describes the process as one in which "different family members wanted different things, but everyone wanted [the hiring process] to happen and to work." In this case, the process of recruiting and hiring helped the foundation board clarify the kinds of skills and experience it sought.

When hiring for an administrator or executive director, the board should consider the pros-and potential pitfalls-of family versus nonfamily staff. Whether or not the staff is family, the board should always develop a clear job description, performance standards, and measures for evaluation in advance of the hire. This is especially important when the staff person is a family member, as it may later pose a challenge to develop and implement accountability measures because of family relationships.

Family Staff

Advantages:	A family member will be more aware of the family history and values, as well as sensitive to family dynamics. The family administrator can reap the experience and personal rewards of acting on the "front lines" of the foundation. In addition, a family member may more effectively communicate the purpose and value of the foundation and have the board's trust to expedite grants quickly. With a close family relationship to the manager, board members will likely maintain a strong sense of confidence in the foundation's administration. In addition, a family staff person may make more of a long-term commitment to the position.
Limitations:	Family members may not have program expertise, experience and objectivity of outside managers. Other board members may perceive the family staff person as biased or predisposed to certain policy decisions, based on a history of personal interactions. In addition, the staff person may experience tension between the roles of steward and staff. A family member who is paid may cause resentment among those members who are not paid. It may be harder to develop appropriate accountability measures for family staff because of over-reliance on familial relationships. For that reason, terminating an ineffective employee may be more difficult when that employee is a family member. According to personnel consultant Ann Ostergaard in Pittsburgh (412/488-6119 or annie@angstrom.net), "If family foundations don't define the jobs that people will handle, it can cause internal conflict-just as it would with any organization. In order to make sure goals and expectations are met, it is especially important to define jobs and complete performance evaluations of a family staff member. By doing this, family foundations can maintain objectivity in a very subjective-and personal-environment." Consultants can help with job descriptions and performance appraisals, bringing impartiality and credibility to the process.
Tip:	In addition to developing a clear job description, performance standards and evaluation measures in advance, board members should decide how the staff will be oriented, trained and supervised. Board members should also become well-versed in the law-both federal and state-to avoid any appearance of self-dealing. For a brief description of self-dealing, see below. The prohibition against self-dealing (IRC § 4941) contains many potential hazards

	for family foundations. Simply stated, a private foundation is prohibited from entering into any financial transaction with certain related parties defined in the law as "disqualified persons." (Disqualified persons (IRC § 4946a) include officers, directors, trustees, employees [and most family members of these individuals] with authority to act on behalf of the foundation and substantial contributors to the foundation.)

Nonfamily Staff

Advantages:	A staff person outside the family can offer fresh viewpoints, program expertise and experience in assessing proposals. This person may have more time to make site visits, monitor grants and evaluate programs, which can yield more efficient grants management and administration. A qualified person can offer an objective approach to strategic planning, mission and board development, and intergenerational succession planning. This type of management often works well for board members who are separated geographically, creating one easily accessible contact.
Limitations:	The costs for salary and benefits for nonfamily staff may be significant. Board members will nevertheless have to dedicate their own time to recruit, train and oversee this staff person. An outsider to the family may create tension and issues of control between board and staff. In addition, this staff person will have access to confidential family matters. In an article in Family Business Review, Ann von Lossberg, a former administrator of the Marion T. and Henry J. Knott Foundation in Baltimore, observes that families may go through a tumultuous period when deciding to hire a nonfamily member. "Almost invariably," she writes, "the family is split between those who see the advantages of nonfamily administrators and those who are wary of including an outsider in confidential family matters. Clearly, when the first nonfamily administrators are hired, they usher in a new era for the foundation."
Tip:	If the foundation is financially able and there are no willing and qualified family members, hiring a nonfamily staff person may be an excellent option. Board members should develop a clear job description, performance standards and evaluation measures in advance of hiring staff. They should also decide who will orient, train and supervise this position.

EXTERNAL MANAGEMENT

Management by a Bank or Law Firm

Many large banks and law firms manage the assets and sometimes the grantmaking of family foundations.

Advantages:	Foundations gain access to staff, expertise in finance, law and administration, and may use the bank or law firm as their public intermediary. These firms can manage a foundation's investment portfolio, as well as prepare all tax and financial documents. Families who wish to shield their identity, protect their privacy and/or do not seek unsolicited proposals may find this model advantageous. This model may also reduce administrative overhead, yielding more money for grantmaking. Tom Theobald, board member of the $8 million Theobald Foundation, has found the services of his bank's trust department very cost effective. The bank manages the Theobald Foundation's assets and financial administration, and occasionally forwards unsolicited grant proposals. "They don't help you answer fundamental questions, such as what sorts of projects you want to support and why, but I can't imagine that the financial administration could be handled more economically. Their address appears on all documents, and I'm very happy to keep a low profile."
Limitations:	This model provides less visibility and a less proactive management style. Some foundations may object to the low level of communication between these firms and the community, especially in the wake of mergers. The public will not be as aware of the family's investment in the community. In addition, with this model, costs can vary widely depending on fees.
Tip:	Typically, families who designate a firm to manage their foundation have had previous relations with the firm (i.e., for estate planning or wealth management). Even so, a family foundation should shop for a firm that best fits its needs, clearly define what tasks to be performed and monitor the performance it receives. Board members should also compare fees and services before choosing a firm.

Management by a Community Foundation

A community foundation supports charitable activities focused primarily on local needs-those of a particular town, county or state. They are designated public charities rather than private foundations by the IRS because they raise a significant portion of their resources from a broad cross-section of the public each year.

Community foundations provide an array of services to donors who wish to establish a giving program without incurring the administrative and legal costs of starting private foundations. In this arrangement, donors advise rather than direct community foundations about the disposition of grants, with the community foundation board giving final approval. In some cases, community foundations will manage an existing family foundation for a fee. For an example of family foundations managed by a community foundation, see last page.

Advantages:	Community foundations can provide staff or administrative services (for a fee), or the family foundation's assets can be placed within the community foundation itself. Community foundations offer exceptional grantmaking expertise, particularly within a community or geographic region. A family foundation can

	reduce its overhead, enjoy opportunities to network and collaborate, and access experienced staff. The Triangle Community Foundation in North Carolina managed a family foundation for two years. According to Tony Pipa of the Warner Foundation, former director of philanthropic services at Triangle, the relationship evolved out of a donor-advised fund the foundation managed for the family. The family decided to set up its own foundation to fund projects statewide, and turned to the community foundation for help in defining its mission and establishing a grantmaking process. "This has been a win-win situation for both sides," says Pipa. "The Triangle foundation staff built its expertise in family foundations, and was able to get the new foundation up and running very quickly even though the donors had no previous experience in philanthropy .
Limitations:	Family board members will not be able to supervise the staff, as they report only to officials at the community foundation. Grantees may become confused about who directs the family foundation and where the grants actually come from. A family foundation will have less visibility with this model.
Tip:	The extent of the family foundation's relationship with the community foundation can vary. Before choosing a community foundation, the family foundation's board members should weigh their desired degree of involvement and visibility.

Philanthropic Management Firm

Serving as the office for a number of foundations, a philanthropic management organization may be a private business, professional practice, or a nonprofit organization. It may specialize in particular program interests or grantmaking approaches. Depending on the family foundation's needs, these professional managers might be highly visible and proactive on their clients' behalf or they might provide only minimal administrative oversight.

Advantages:	These organizations offer complete management, grantmaking and administrative services, plus they introduce board members to various philanthropic networks and resource groups. Family foundations can maintain their identity and individual character, or they may function anonymously. Family foundations can set all the terms of grant selection and may also have a say in personnel decisions. The Samuel P. Pardoe Foundation, a New Hampshire-based family foundation with around $10 million in assets, has relied on a professional grant management firm for administrative support since its inception ten years ago. According to President Charles Pardoe, the company was initially hired as a consultant to explain foundation fundamentals, since none of the family members had any previous foundation experience. Since then, the company has served as the front and back office of the Pardoe Foundation, fielding queries, forwarding proposals and handling paperwork for the board members, who are geographically dispersed. "We have found it extremely valuable to have an independent third

	party as a sounding board," says Pardoe. "The management company staff members provide us advice on best practices. The only down side is that the management company sometimes has closer relations with our grantees than the board members do."
Limitations:	Fees can be significant, depending on services rendered. Bookkeeping and similar services may be billed on an hourly basis, while full-service packages (including salaries and overhead) will likely be assessed as a percentage of the grants portfolio.
Tip:	As with choosing other outside management options, a family foundation should weigh its asset size and desired level of involvement before seeking outside services.

Consultants

In this case, the family foundation hires an individual or consulting group for specific tasks that recur but are not necessarily ongoing. For instance, a consultant might receive grant requests and prepare recommendations for trustees; facilitate a retreat or draft a mission statement; or design and manage programs, plan investments and prepare tax returns. The consultant is usually paid an hourly or daily rate and may spend extensive time working for the foundation.

Generally, a family foundation consultant does not represent the family or the foundation, nor does the consultant provide an office, telephone number or keep records for the foundation. The consultant may be an individual working from home, someone in a practice specializing in nonprofit or foundation boards or a consulting firm.

According to Trends in Family Foundation Governance, Staffing and Management, Fourth Edition, 71 percent of respondents (172 out of 242 total) reported using at least one type of consultant in 2000. Most foundations with less than $10 million in assets who use consultants do so on a short-term or part-time basis for specialized tasks or discrete administrative functions.

Advantages:	It is possible to hire specific expertise on a part-time basis that the foundation could not afford on a full-time basis. The cost of ongoing staff and office space is not necessary. In addition, board members will not have to dedicate time to supervise the person as they would a staff person. Over the past ten years, the Nathan Cummings Foundation has brought in consultants at different stages in its development. According to Trustee James K. Cummings, "It's important for us to have a neutral professional who listens without an agenda and who gives feedback in a noncharged way. We're a family that has a lot to say, and the consultant makes sure the weaker voices are heard along with the stronger ones. Having the consultant present keeps us on track and focused in ways we probably wouldn't be on our own."
Limitations:	The consultant needs to maintain close contact with board members and reflect their values. The foundation may be less visible without a specific office and an

	easily accessible person to reach. If a consultant is hired to interact with applicants and grantees, response time may be frequently delayed if the consultant has other commitments.
Tip:	Board members should clearly define expectations and performance standards upon hiring a consultant. Have your legal counsel review the consulting arrangement and contract. For consultant referral, contact the Council on Foundations at 202/467-0407 or e-mail family@cof.org.

SHARING MANAGEMENT

Many foundations share staff or space with one or more other organizations-a corporation, a law firm, a nonprofit, or another grantmaker. This can be a significant cost-saving option. According to Trends in Family Foundation Governance, Staffing and Management, Fourth Edition, 25 percent of family foundation respondents (55 out of 216 total) indicated that they currently share professional or support staff with another organization.

Sharing staff and space can fall into any of the above management models. Many foundations, for example, share space with the donor's family business or home office. In some cases, a staff person manages a donor's company foundation and the family foundation.

Advantages:	Lower costs and administrative overhead. In some cases, exchange of resources and ideas.
Limitations:	When a staff member is shared and must perform functions that require different skill levels, the possibility for over- or under-compensation exists. Also weigh carefully whether a shared individual understands the aims of the family and the nature of those community organizations or players with which the family and foundation interact.
Tip:	Sharing arrangements should be thoroughly reviewed by the foundation's legal counsel and accountant to prevent violations of self-dealing rules.

Can a family foundation and a family member share office space and related expenses? Legally, such sharing is possible but involves complex and necessary recordkeeping. Assuming the office space is owned by an unrelated party, both the foundation and the family member should pay rent directly to the landlord. This arrangement suggests that separate leases will be necessary. Payments for other expenses such as copying and telephone should be paid directly by the two parties. If the foundation were to pay the bill and seek reimbursement from the family member for his or her share, such a transaction could be viewed as an extension of credit, which is clearly self-dealing.

WHICH MANAGEMENT MODEL IS RIGHT FOR YOU?

Remember-there is no right or wrong answer to which management model works best for family foundations. In fact, many foundations use a combination of models and even change models throughout the course of the foundation's lifespan. To start, review the questions in the beginning of this document. Where does your foundation stand in regard to how it wants to conduct its grantmaking, the available time and expertise of its board members and its finances? From there, review the options with your board, discussing which models are realistic and which are not. When you have decided, contact your colleagues that have engaged in this particular model. They can provide you with helpful insight and guidance to avoid any roadblocks they may have encountered. And, as always, contact the Council on Foundations with any questions you have along the way.