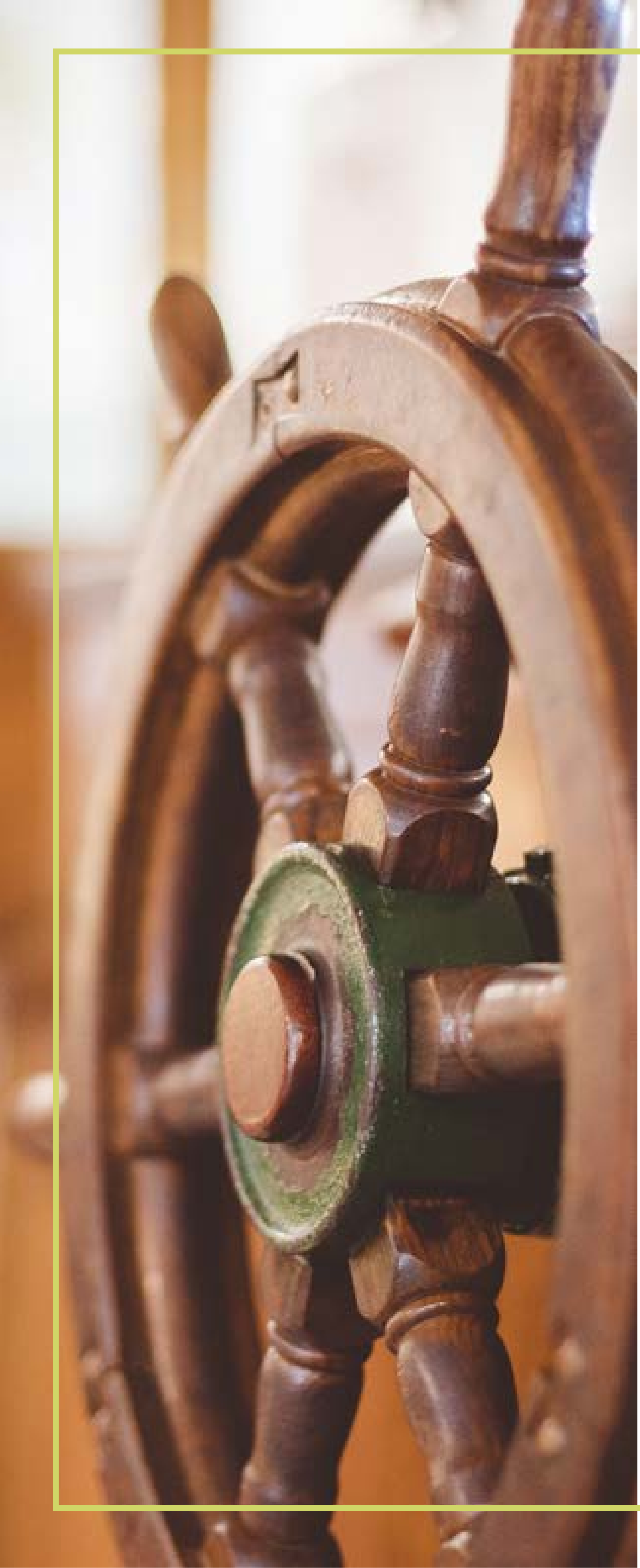

Governance

Building a Framework for Your Decision Making

Every giving effort needs a guiding framework to be effective.

Governance is that framework.

NATIONAL CENTER FOR FAMILY PHILANTHROPY

About this Series

This primer is the third in a series of seven about the Family Giving Lifecycle. The Lifecycle framework is comprised of seven inflection points and orients donors toward effective outcomes at each stage.

The Lifecycle framework encompasses the breadth and inflection points of family philanthropy and orients donors to effectiveness for the purpose of promoting better outcomes. The Lifecycle framework applies to families at all stages of their philanthropy[1], whether they are a wealth creator just starting out or a multi-generational family foundation improving their work. It is important for donors and their families to revisit the seven inflection points over time as they evolve and learn.

In each primer you'll find: basic information to get started or refresh yourself on the topic, ways to improve when you have the time and will, tips for involving your family, worksheets to guide your thinking, and a few select resources to advance your practice.

The full series of primers and related resources are available at here. The National Center for Family Philanthropy (NCFP) also provides workshops related to the primers. To learn more, please contact us.

[1] Philanthropy is "voluntary action for the public good." It can be informal and/or formal and include giving, granting, volunteering, investing for social/environmental impact, building social enterprises, advocacy, and/or other actions. Family philanthropy is when multiple branches and/or generations of a family (self-defined) take those actions together.

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Overview

Governance is a framework in which you name how decisions will get made in your philanthropy and by whom. While setting up a governance structure may sound overly formal or bureaucratic, it doesn't have to be. Even establishing a simple form of governance can enable you and others—family members and/or non-family board members—to work together, make sound decisions, and measure the effectiveness of your giving. Together, you can design a structure that works for you and your family—one that everyone is comfortable with—and adjust it as needed over time.

Wait...isn't governance for private foundations only?

When people hear governance, they tend to think of private foundation boards. There's a reason for that. Many private foundations do have boards of directors that govern their philanthropy. A new foundation board might start with the founders and a trusted expert or colleague. It then evolves to include the children, extended family members, or other community members.

Yet, you don't need to have a board or be a private foundation to use good governance practices. Setting up a simple governance framework can be useful for any charitable vehicle, including outright gifts, donor-advised funds, or limited liability companies. Many donors use governance practices intending to make their philanthropy more thoughtful and effective. Moreover, adding structure to philanthropy creates more freedom. With structure, decision making becomes more straightforward, streamlined, and satisfying, leading to more impactful results.

This primer will help you demystify governance, think through whom you would like to join you, and how you will make decisions as a group. In the primer, you will find:

I. The Fundamentals

Whether you're working with an informal group or a board of an incorporated entity, your governance framework will need to address the "4 Ps"—people, principles, policies, and practices.

To set the stage for a successful governance framework, see pages 6–8, Appendices A and B, and Worksheets 1–4.

II. Extending the Fundamentals

As families advance in their philanthropy, they explore several policies and practices to strengthen governance and decision-making frameworks. These include strategic lifespans, purpose-led boards, bringing in new voices, sharing power, and becoming more transparent.

To strengthen your governance framework, see pages 9–14 and Worksheet 5.

III. Involving Your Family

As your family grows, you may have many more people who could potentially join as decision-makers. The expanded number of people requires you to pay closer attention to family culture and family resiliency and consider other decision-making forums.

For hints on ensuring successful family governance, see pages 16–17.

IV. Looking Ahead

Your governance framework must evolve with the changes in your life, the lives of the family members and others, and the communities and causes you care about. Effective families and funders make time to revisit their assumptions and goals around decision making and governance every few years.

For hints on looking ahead and helpful resources, see page 18.

Benefits of Clear Governance Policies and Practices

Establishing decision-making principles, policies, and practices early in your philanthropic lifecycle promotes success in the long run. When you do so, you ensure:

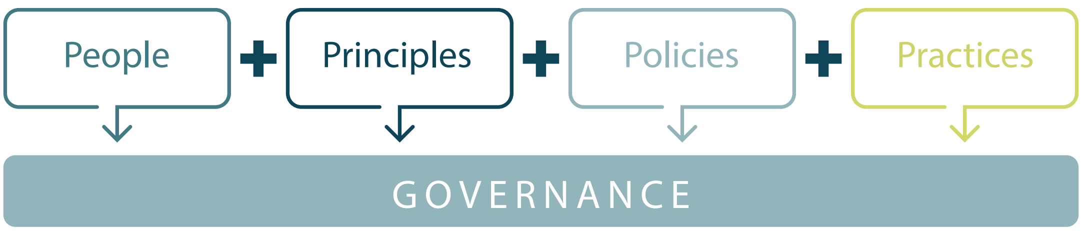
1. Intentionality and order to your philanthropy, often resulting in a more streamlined and successful approach.
2. Continuity during transitions (particularly when unexpected).
3. Skills and perspectives needed are available to you and your family, and perhaps to a board and staff.
4. More productive conversations when decisions are controversial or complex.
5. Hopes for fairness do not get in the way of accomplishing your philanthropic purpose.
6. You are hearing and respecting a diversity of perspectives.

I. The Fundamentals

Governance is the decision-making framework that guides your philanthropy. It's a crucial component of effective family philanthropy, corporate philanthropy, or successful leadership of a social impact strategy.

Formalizing a governance framework brings a level of thoughtfulness, intention, effectiveness, and collaboration to your philanthropy. It creates a focus on making the best decisions for the philanthropy itself, over any one individual. It's also a tool for keeping participants accountable—to each other and something larger than themselves.

At its most basic, governance answers two questions: who and how? A practical governance framework breaks those two questions into four elements—people (who), and principles, policies, and practices (how). We call them the "4 Ps" of effective governance.[1]



People

In the early stage of your Family Giving Lifecycle, determining who will make important decisions is relatively obvious. It might be a single generation—you and your spouse or partner, you and your siblings, and/or you and a couple friends, employees, advisors, or experts.

Even in this early stage, you should outline basic preferences for whom you'd like to involve in decision making now and in the future. At a minimum, consider your emergency plan. Do you want others to act on your behalf if you become incapacitated? Do they have enough information about your personal values and philanthropic motivations and priorities for you to feel comfortable in them doing so?

Suppose you establish a legal vehicle to manage your philanthropy. In that case, you'll want to formalize a governing body—a steering or advisory committee, a board of directors, or another group of people who come together around an agreed-upon purpose and vehicle for social impact. A governing body can also be useful if you manage your philanthropy through your business or choose to endow a fund or position at a museum, college, or other institution.

You should document four decisions for that governing body:

1. Who do you hope will participate now and in the future? Will they be family members? Friends or advisors? Community members or subject matter experts?

2. What roles do you hope they play? Do you need a formal board of directors, an informal set of advisors, committees or task forces, paid advisors and consultants, or staff?

3. How are those roles structured? What are the authority, size, and decision-making rules for the group?

4. What criteria for eligibility and selection will you use?

1 Adapted from [The Family Governance Pyramid: Enhancing and Guiding Your Family Philanthropy](), by Patricia M. Angus, Esq., 2021.

Lists of Principles

You may have experience with lists of principles considered best practices, such as the Business Roundtable's Principles of Corporate Governance or codes for your profession. Similar lists for philanthropic organizations include:

- For foundations, the Stewardship Principles for Corporate Grantmakers and Stewardship Principles for Family Foundations by the Council on Foundations
- For investments, the Endowments Code of Conduct by the CFA Institute and Principles for Responsible Investment by the United Nations
- For nonprofits of all types, Principles for Good Governance and Ethical Practice by the Independent Sector

Principles

Principles convey your why. They provide the values and moral compass that drive your philanthropy and social impact. They also guide how governing members will work together and see their roles as stewards of philanthropic resources.

Common governance principles include ethics, integrity, accountability, transparency, leadership, effectiveness, and stewardship. Businesses, nonprofits, and foundations will often share their list of guiding principles with both employees and the public. They often build those principles on a list of core values and may appear in a mission statement, donor intent video, or other governance documents.

Action Item: To define your values and principles, see the Philanthropic Purpose Primer.

Policies

Policies are the rules, guidelines, and parameters for using your principles to tackle common issues. They give direction to and provide oversight for your governing body, your philanthropic activities, and uses of your resources (financial, human, and more). Two of the most common forms of policies are legal and organizational:

- Legal and regulatory policies are created by formation documents of a legal entity and by regulators such as state and federal government agencies or financial institutions. For instance, if you have a nonprofit vehicle for your social impact (e.g., a foundation), the IRS asks about the existence of specific policies during incorporation and in annual tax filings.
- Organizational policies are most often created by the action of the governing body. Language in founding documents such as articles of incorporation, bylaws, or a statement of donor intent often inform these policies.

Governance experts recommend establishing a process for regularly reviewing and updating your policies to ensure they remain relevant to your work and compliant with changing laws and understanding of best practices. Boards often review policies every three to five years, breaking them into smaller sets to tackle each year.

Tip: Sponsors of donor-advised funds and other fiscal agents for philanthropic projects will require you to follow their policies and procedures or give you templates to adapt. It is wise to request and review their documents and requirements before signing an agreement with a sponsor or fiscal agent.

Action Items: Use Worksheet 4 to review your list of your governance policies and see NCFP's Knowledge Center for sample policies. To learn more about the policies and practices of private foundation boards, see Appendix A.

Practices

Practices are established procedures designed to fulfill stated objectives or parameters in your policies. They help a board member, committee member, or employee know how to deal with a situation and when.

At a minimum, you'll want to establish practices for: meeting minutes, financial oversight and use of financial resources, meeting schedules, expectations for participation in meetings and decisions, and recordkeeping and monitoring for uses of money. Over time you'll develop additional practices in three areas—governance, operations, and administration:

- Governance practices include scheduling and managing family meetings, ensuring that decision-making processes are clear, clarifying communications between stakeholders, and educating the existing board and future board members or younger generations.
- Operating practices include establishing grant or fellowship application processes, rules of evaluating proposals, making sure the decision-making process is fair and transparent, and monitoring your philanthropy to ensure it is effective.
- Administrative procedures help you run your philanthropy efficiently, consistently, and responsibly. They might include an employee handbook, facilities use and management rules, step-by-step rules for financial oversight, grant or scholarship payment schedules, and recordkeeping practices.

Tip: The National Council for Nonprofits lists optional sets of standards and guidelines for excellence in nonprofit principles and practices. B Labs offers a free collection of best practice guides for increasing employee wellness and engagement, reducing environmental impact, and other issues.

Action Items: See Appendix B to learn the basic policies and practices for effective group decision making. Also, see the rest of the primers in this series to help you create social impact, operations, and learning and assessment practices.

II. Extending the Fundamentals

Getting the fundamentals in place can and will take time. You and other people involved will want to discuss and fully understand how you're applying your principles to your policies and practices. Families and other groups often need to live with policies and practices for a while and try them out for various decisions. They'll then update them based on real-life experience.

There are a number of policies and practices to strengthen governance and decision making. NCFP encourages you and your governing body to consider these practices, including strategic lifespan, purpose-led boards, bringing in new voices, sharing power, and becoming more transparent.

Time Horizon (Strategic Lifespan)

As you consider who will participate, it's helpful to ask yourself, "How long do I want my philanthropic resources and impact to last?". Past generations of donors and their advisors often defaulted to creating perpetual foundations or trusts. Newer generations make a wide range of choices about lifespan, and an increasing number of foundation boards are reconsidering their lifespan.

NCFP's Trends 2020[2] national survey of family foundations found:

- 28% had decided to operate in perpetuity
- 9% had decided on a specific lifespan
- 18% revisit their lifespan periodically
- 45% had not yet made a decision

People also establish donor-advised funds (DAFs) with a variety of intended lifespans, with many not yet making a permanent decision. Note that sponsors of these funds vary in their policies around the lifespan choices, the numbers of successor generations involved, and the fees charged depending on lifespan. Charitable trusts have lifespans that are either defined by IRS rules or by founding trust documents. Social enterprises, impact investing funds, and other social impact tools will also vary in their lifespans.

To become an effective donor or funder, you should treat lifespan as a strategic choice. You'll want to balance opportunities to make a difference now versus in the future. And you'll want to think ahead about the availability and willingness of qualified talent to carry on your philanthropic purpose.

Action Item: To define or reconsider your desired lifespan, see the Succession and Legacy Primer.

[2] Trends 2020, National Center for Family Philanthropy, 2019

Purpose-Driven Governance

Effective governance is not a guarantee. It takes time and commitment. BoardSource is a nationally respected resource for creating excellence in nonprofit and foundation governance and leadership. It encourages Purpose-Driven Board Leadership based on four fundamental principles that separate nonprofit governance from corporate governance:

- Purpose before organization: The prioritization of an organization's purpose versus the organization itself.
- Respect for the ecosystem: An acknowledgment that an organization's actions can positively or negatively impact its surrounding ecosystem, and a commitment to being a respectful and responsible ecosystem player.
- Equity mindset: A commitment to advancing equitable outcomes and interrogating and avoiding how the organization's strategies and work may reinforce systemic inequities.
- Authorized voice and power: The recognition that organizational power and voice must be authorized by those impacted by the organization's work.

These four principles are essential considerations for effective philanthropy. More family foundations are paying attention to the principles, considering issues of economic inequality, and applying a racial equity lens to their work.[3]

Stewardship is another fundamental principle to discuss and reinforce in purpose-driven governance. However, the very concept of stewardship is being challenged as society reckons with longstanding injustices. Nonprofits, the media, elected officials, and community activists all are asking foundations and donors to reflect on how they're managing funds earmarked for the public good. They're asking companies to become proactive stewards of the well-being of employees and suppliers, the communities in which they operate, and the environment. In response, companies and philanthropic organizations are learning and embracing new ways to ethically balance economic, community, environmental, and human resources.

Your role as a fiduciary, your responsibility for managing assets on behalf of others, has three primary duties—the duties of care, loyalty, and obedience. In modern practice, effective fiduciaries and investment stewards are reconnecting assets to purpose. They're creating investment and spending policies that purposefully balance organizational or family values and principles, philanthropic goals, time horizon, changing conditions in causes or communities, and other factors with financial forecasts.

Action Item: For more information on investment stewardship, see the Balancing Purpose, Payout, and Permanence strategy and discussion guides by the Council on Foundations and the National Center for Family Philanthropy.

[3] The Giving Landscape: 2020 Trends, National Center for Family Philanthropy, 2020

What Does Stewardship Look Like in Action?

How can you create a culture of stewardship in your group, board, or organization? Research has shown that an effective culture of stewardship is based on six practices[4]:

1. Intrinsic motivation: bringing in people who are intrinsically motivated to work on behalf of the organization rather than their own interests.
2. Organizational identification: both the leaders and employees identify with the organization's mission, vision, and objectives.
3. Personal power: people use personal power built on trust-based interpersonal relations rather than power based on their position.
4. Collectivism: motivations and actions promote the collective good and organizational goals over personal gain.
5. Low power distance: unlike high power distance organizations, where power is concentrated at the top and hierarchical position confers privileges, low power distance organizations are egalitarian, with members treated equally.
6. High involvement orientation: people feel invited to be involved in decision making and important organizational processes.

[4] Adapted from the Ideas for Leaders summary of research in Leading a Family Business: Best Practices for Long-Term Stewardship by Justin B. Craig, PhD, and Ken Moores, PhD

Expanding Your Viewpoints

The leadership of a philanthropic vehicle typically starts with a small and intimate group—a couple, a set of siblings and their spouses, a circle of friends, or a few business associates. While they might not agree on everything, they share a core set of principles or goals. As they settle into work together, they often realize their group would benefit from new perspectives on an issue. After all, research has repeatedly shown that teams and businesses that are more diverse (age, ethnicity, race, gender, personality type, socioeconomic status, and more) make better decisions and perform better.

To gain the power of diverse perspectives, foundations and other philanthropic vehicles have added the following types of people to their committees and boards:

- Trusted allies: professional advisors, faith leaders, trusted friends, and mentors who can act as honest brokers in conversations and often smooth tensions between family members.
- Community voices: residents of a geography who can share local history and context, find good ideas to support, win over local skeptics, and build sustainable momentum for a giving strategy. They might be purposefully of a different race, ethnicity, or culture to help bridge divides and ensure there aren't unintentional biases to a social impact strategy.
- Lived experiences: people who have first-hand experience with a problem (e.g., students in a failing school or people with a disease) or who purchase goods or services from a nonprofit or social enterprise (e.g., museum tickets or healthcare) who bring insights into the value of programs.
- Excluded perspectives: people left out of public decision-making processes, left behind by the economy, or otherwise marginalized who can infuse a sense of justice, compassion, and equity into philanthropy.
- Experts: researchers, nonprofit leaders, product designers, artists, and anyone else who can bring context and trends about an issue, culture, or problem-solving technique. They can also bring practical insights into operating issues like human resources, governance, and family dynamics.

Family foundations are adding more non-family members to their boards and more frequently integrating outside perspectives into their grantmaking and governance structures. Those that self-report as "very effective" are significantly more likely to incorporate the views of community leaders, issue area experts, other family foundations, and specialists in diversity, equity, and inclusion into their governance and grantmaking.[5]

Action Item: Worksheets 1–3 document the people you want in advisory or decision-making roles. As you think about current or future roles, consider the benefits of adding new perspectives.

[5] Trends 2020, National Center for Family Philanthropy, 2019

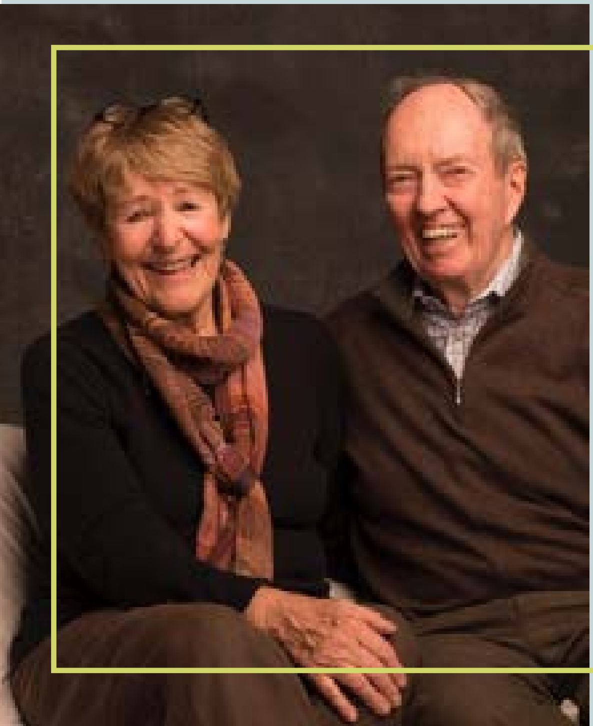
Sharing Power

Philanthropy holds an inherent power imbalance between those who make decisions about donations and those who rely on those donations to do good in the world. Ignoring that power imbalance can undermine a funder's reputation, effectiveness, and impact. As a result, a growing number of donors and funders are proactively working to bridge the power divide between them and the communities and grantees they serve. They believe that to do their best work, they must connect to communities in an authentic way.

Power, privilege, and money are some of the hardest things to talk about in board rooms, awards committees, and families. Funders who've navigated those conversations successfully suggest using one or more of these starting points:

- Name and claim power differences and power dynamics, including those within the group.
- Explore the origins of the resources you're using (e.g., corporate success or family wealth built on unfair labor practices).
- Leverage community leadership by listening to, collecting, and showcasing the stories, ideas, and solutions of people closest to a problem.
- Take the time to build authentic relationships with people who hold different perspectives and experiences. Don't stop at listening. Instead, act together on ideas and shared hopes.
- Treat grantees as you would like to be treated.
- Share or even transfer, decision-making authority to another group. Examples include neighborhood residents overseeing an investment program, high school students deciding on grants to youth programs based on peer feedback, former scholarship recipients updating criteria and applications based on their own experiences, or people with disabilities ensuring programs and services are fully accessible.
- Go beyond ideas of equality and diversity to building a more inclusive culture and more racially equitable policies and practices.

Action Item: To start or expand this conversation in your governing body, see the National Center for Family Philanthropy's [Bridging the Power Divide: How Family Funders Share and Shift Power].



Family Funds Participatory Grantmaking

Joe and Lynne Horning established their family's donor-advised fund in the late 1990s. Over time, the family focused their grantmaking on improving education in Washington DC's Ward 8 community. Based on what they were learning about issues of racial equity, the foundation launched its Neighbor to Neighbor (N2N) small grants program in 2019. The family recruited nine residents of Ward 8 to serve as the grantmaking team. The team decides on funding priorities, designs the application process, reviews proposals, and awards small grants to organizations in the community which hope to improve community engagement, community empowerment and education, and community wellness. The family's foundation dedicated $25,000 to the program in the first year and in the second year increased N2N to $50,000 with the support of an additional funder. The family also involved residents of Ward 8 in its most recent strategic plan and launched another community-led grantmaking team to govern its Racial Justice Initiative.

Transparency as Policy and Practice

The philanthropic sector is facing increasing criticisms of wealth, privilege, and lack of transparency. Because of this, all donors and philanthropic vehicles must discuss this critical practice: how to be more public and transparent in your philanthropy.

Donors and foundations are shifting practices to encourage better communication, information sharing, and intentionality around their giving. For example, they are using more communications channels (e.g., websites and social media) and revealing more details about their grant guidelines and processes.[6]

Action Item: To draft your practices around anonymity or transparency, see Worksheet 5. To make a case for openness internally or strengthen your practices, see the checklist, resources, and example foundations at the Glasspockets initiative by Candid and review NCFP's Content Collection on Privacy and Transparency.

[6] Trends 2020, National Center for Family Philanthropy, 2019

III. Involving Your Family

Governance is an essential part of your family's philanthropy—and it can also be challenging. As a donor or a family, governance asks you to establish defined protocols for discussing philanthropy and ensuring everyone has a voice in decisions. Those choices may call for family leaders to soften in their roles as sole decision maker(s), giving up some control for the sake of bringing their children and others into the fold. Some donors may initially struggle with this. They might feel that setting up a system of governance is too formal for a familial setting. Or they may not be ready to cede control.

To effectively involve your family in the governance of your philanthropic vehicle, start with your family culture, consider other family decision-making structures, and strive for resilience.

Governance that Serves the Philanthropy

Consider setting up a governance structure that serves your philanthropy as much as it does your family. Many donors initially set up their boards or policies to serve the needs of individual family members—only to discover later that your philanthropy isn't as effective as they had hoped it would be. Instead, aim to create a governance structure that your family and philanthropy deserve as both expand. In time, your family will feel pride knowing they are part of a well-run, intentional, and impactful philanthropy.

Start With Family Culture[7]

Your family's culture or identity is "who you are as a family—the things that make you feel part of something bigger than yourselves." Family culture is a product (a family's accepted accumulated wisdom) and a process (renewing and reinventing culture as people enter and exit). You'll see your family's culture show up in one or more of these ways: heritage or ethnicity, guiding principles, core values, unspoken or spoken rules of how you act together, life lessons, and/or the rituals, traditions, and habits that reinforce your principles, values, and norms in small and big ways.

While it will take dedicated work, you'll find great value in creating a purposeful culture for your family and your family's philanthropy. A clear, purpose-based culture:

- Allows more individuals to contribute to the collective. It's easier for new people to join, remain, and effectively contribute to group work.
- Smooths eventual transitions. With everyone aware of boundaries, they know what comes next when others transition into leadership roles.
- Reinforces the sense of belonging and satisfaction for everybody involved, strengthening the ability to buffer against negative influences.
- Clarifies and strengthens relationships with the community and grantees.

Philanthropic families create a purposeful culture in a variety of ways. In addition to collaborating to develop their philanthropic purpose, they:

- Share stories about how family members lived out certain principles or values, especially during hard times or tough decisions.
- Vacation and volunteer together.
- Discuss the history of family traditions, helping people hold true to the "why" even if the "how" evolves. They discuss how traditions reinforce heritage, principles, or norms.
- Assign someone to actively welcome and orient new family members to the family's culture and learn what family culture that new member brings.
- Create a family biography, timeline, family tree, or another storytelling tool that can be passed down or added to over time.

Consider Other Formal Structures

Families who choose to work together across generations often find they need a forum for family decision making and family culture development that is separate from their philanthropic vehicle or family business. Your philanthropic vehicle shouldn't be the only means of ongoing family collaboration. Multi-generation families will also develop these governance forums that live outside of the philanthropic vehicle but help guide the governance of that vehicle:

Family Constitution or Charter: a document that identifies family members' vision, values, and expectations. It ensures clarity and transparency in decision making and helps families know what to do when there are disagreements. It also clarifies the roles of each governing body and the relationship between those bodies.

Family Meetings or Assemblies: gatherings where family members a) learn about things that are relevant to the family and b) build strong relationships across branches and generations of the family. Educational topics may range from the family's business or trusts to navigating the use of wealth or family-owned properties. Assemblies might be special day-

[7] Adapted from Family Culture: Creating a Resilient Family Tree, Jamie Forbes and Kelly Nowlin, 2018 and NCFP's February 2021 webinar, Family Identity and Culture.

long events or built into family vacations and include fun or age-appropriate learning activities for children.

Family Council: a subcommittee of family members tasked with the "business of the family." It manages family meetings, maintains the family constitution or other rules, and develops family members' shared values, will, and capabilities for collaborative decision making. In addition, the council may be a conduit for ideas and talent between the larger family or family assembly and a family foundation or family business.

Strive for Resiliency

Resilience is your family's ability to bounce back to healthy functioning after stress and even turn that stress into a catalyst for personal growth. Family psychologists have found that resilient families are clear about three topics: shared beliefs, communication and organization, and use of resources. As seen in the chart below, those three topics mirror the fundamentals of good governance.

Family Resilience	Good Governance in Philanthropy
Shared beliefs: perhaps tied to faith or spirituality, which help family members find meaning and a positive outlook.	Principles: vision, values, beliefs, or a North Star, perhaps written in a family charter.
Communication and organization: how the family stays connected and the forums it creates for a collaborative problem-solving spirit.	Policies: rules and guidelines for the philanthropic work and governing body.
Use of resources: mutual goals and values for the uses of the family's money, home, and other assets	Practices: for using treasure, time, talent, ties, and testimony to benefit others and achieve social impact.

Planning for resiliency means your family's philanthropy will be able to adapt and improvise amid changes in the world, your family, or governance bodies. It also means you'll be more able to bounce back after any stresses or transitions. Attorney and governance expert Patricia Angus provides these tips to remain resilient and effective:[8]

1. Keep asking why? e.g., Why is this committee structured this way? Why is that policy in place?
2. Encourage open communication within the family, so you don't create an insider vs. outsider mentality. Durable governance systems lean into inclusion rather than exclusion.
3. Create productive, action-oriented meetings and gatherings to attract and retain the involvement of younger generations. Also, expect younger generations to desire more of a voice and vote in your philanthropy earlier in their lives.
4. Strive for consistency in following policies and practices (including founders) so that everyone involved feels they're being treated fairly.
5. Remember that advisors and consultants can help guide a process but can't lead the family's work.

[8] See NCFP's April 2021 webinar, Effective Governance: Principles, Policies, and Practices.

IV. Looking Ahead

"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."

– Virginia M. Esposito, *Splendid Legacy 2*

We hope this primer and its worksheets provide you and your family with a practical guide to setting up, and regularly revisiting, a governance structure that best supports your philanthropy. In summary, the primer explored:

What is governance and decision making?

Who will make decisions in what settings?

How do we make those decisions?

How can we document our choices?

While it takes some thought and doing to set up this structure initially, it's well worth the effort. You and your family will enjoy the meaningful and effective philanthropy that comes as a result.

Keep in mind the importance of revisiting your assumptions and decisions about governance over time. Some families establish a standard policy and practice review cycle, e.g., every five years. Experiences such as a community crisis, death or marriage in the family, or significant wealth event in the family will also cause families to revisit and strengthen their governance structures, principles, policies, and practices.

What's next? Your decisions around governance will guide the choices you make in the rest of the primers in this series (find them at ncfp.org/lifecycleprimers/). For instance, you'll use them to shape:

Impact Vehicles and Tools: Governance policies and practices set the stage for effective management of the grant, scholarship, impact investing, or other programs to make a difference.

Operations and Management: Having your family's policies, charter, or other "rules of the road" documented helps you identify staff and advisors that will be a cultural and values fit with the family.

Succession and Legacy: Developing and using even basic governance practices with successor generations increases the chances that they'll work well together in the future and continue a shared vision for success and philanthropic legacy.

Resources

Need help?

See the resources below and feel free to contact NCFP to talk through your ideas, meet other donor families, or get in touch with a philanthropy advisor who can guide you and your family members through this important process.

Essential Resources

- Demystifying Decision Making webinar recording
- Effective Governance: Principles, Policies, and Practices webinar recording
- Good Governance: The Foundation Imperative by Ginny Esposito in Splendid Legacy 2
- The Family Governance Pyramid: Enhancing and Guiding Your Family Philanthropy, National Center for Family Philanthropy
- Demystifying Decision Making in Family Philanthropy, National Center for Family Philanthropy
- Avoiding Conflicts of Interest and Self-dealing for Family Foundation Boards, National Center for Family Philanthropy

Further Exploration: National Center for Family Philanthropy Content Collections

- Governance Essentials: An Orientation for Family Foundation Board Members
- Board Composition, Diversity, and Recruitment
- Family Foundation Board Chair Roles and Responsibilities
- Family Meetings and Retreats
- Racial Equity, Diversity, and Inclusion
- Self-Dealing and Conflicts of Interest
- Ethics and Accountability in Family Philanthropy
- Family Dynamics: Avoiding Avoidance in Family Philanthropy
- Board Meetings, Board Job Descriptions, and Rotation Policies

Appendix A

What Do Private Foundation Boards Do?

Governing bodies (often called boards, board of directors, or even family membership groups) look different across family philanthropy: They vary in size, membership, generations, and geography. Some might meet around a kitchen table or living room sofa, while others gather in a more formal conference room or meet annually at a family retreat or reunion.

Despite how different governing bodies can look or operate, they do share certain things in common. For example, it's the role of the board or governing body to set forth a purpose for the philanthropy (called a mission statement) based on shared values and work together to give funds toward that purpose.

All private foundation boards share certain things in common as part of their legal duties. If you don't have a private foundation, you can still look to this list for ideas of good governance practices to consider. It's the role of boards to:

- Provide leadership, oversight, and direction for the foundation or philanthropy
- Set policies and strategies on investments, spending, grantmaking, board compensation, personnel (if applicable), and more
- Keep clear and accurate records
- Stay accountable and transparent to the public trust, and
- Abide by all the IRS rules and laws governing private foundations/charitable giving.

This list above relates primarily to fiduciary governance, or oversight—meaning being faithful to the mission, accountable to the organization, and compliant with all laws and regulations.

Beyond these oversight duties, however, there's more to effective governance. The book Governance as Leadership[9] refers to two equally important types of governance: strategic governance or foresight, which focuses on setting priorities for giving now and in the future. Activities include strategic planning, developing grantmaking/giving strategies, communicating with grantees and the public, and identifying ways to contribute that go beyond giving.

Generative governance, or insight, leads the board to consider its structure, meaning, and development. This type of governance leads to discussions around "what should we pay attention to, what does it mean, and what might we do about it?" Generative governance activities include articulating shared values or a vision; clarifying who can be on the board and how they will be recruited; planning for leadership succession; engaging the next generation of family members; and constant learning and leadership development.

These three types of governance—fiduciary, strategic, and generative—are by no means mutually exclusive. The most effective boards or governing bodies do all three. You might naturally start in a new board or governing body with more focus on or the other type of governance, and that's perfectly fine. Yet over time, similar to a three-legged stool, you will need to address all three types to keep your governance steady and in good standing.

> Tip: Share the three types of governance with your family or board members to help them understand governance practices and what role they might play. Be sure members are clear on their roles—what they are supposed to do and when. It can help, in time, to create member job descriptions to keep everyone accountable and in the know.

[9] Chait, Ryan, and Taylor. Governance as Leadership: Reframing the Work of the Nonprofit Board. John Wiley & Sons, Inc., 2005.

Appendix B

How Can We Make Good Decisions?[10]

A significant number of organizational conflicts and misunderstandings stem from unclear decision-making practices. And, decisions made within the family philanthropy vehicle (like a foundation) may significantly affect the family and vice versa.

What matters most is that the people involved feel confident that their views are respected, and the process is handled fairly. If people feel their perspectives are heard and factored into a discussion, they're more likely to support and implement a final decision.

#1 START WITH YOUR PRINCIPLES:
Grounding your decision-making policies and practices in the values and principles you've already created. Some groups will create a unique set of principles for their decision making. Common examples include equity, respect, financial sustainability, informed consent, and working in the best interest of the mission.

#2 UNDERSTAND THE DECISION-MAKING METHODS:
There are five primary methods of decision making, each with its advantages and disadvantages. The methods are:

Unilateral: you as donor or leader make decisions and announce them to the group.

Unilateral with Input: you gather ideas and feedback from a set of selected individuals or the whole group.

Delegation: you and your group delegate the decision to a sub-group with clear guidelines for the process and result.

Voting: the group discusses the idea then votes, with a simple majority or larger majority winning. The voting could be a simple yes/no, a ranking of options, or a scoring along with a range (e.g., intensity of excitement for an option).

Consensus: the majority approves a given course of action after discussion. The minority agrees not to block that course of action even if they don't fully agree with it. It is wise to have one of the other methods as a fallback option if your group can't reach a consensus within a reasonable timeframe.

#3 DECIDE HOW TO DECIDE:
Effective governance frameworks don't apply the method to every decision. Instead, they vary the same methods based on the type of decision and goals they're trying to accomplish with the result of the decision. Using differing methods will help your philanthropy be more likely to succeed over time and be more resilient through changes and transitions.

[10] Adapted from Demystifying Decision Making in Family Philanthropy, Ann Shulman, J.D., 2021

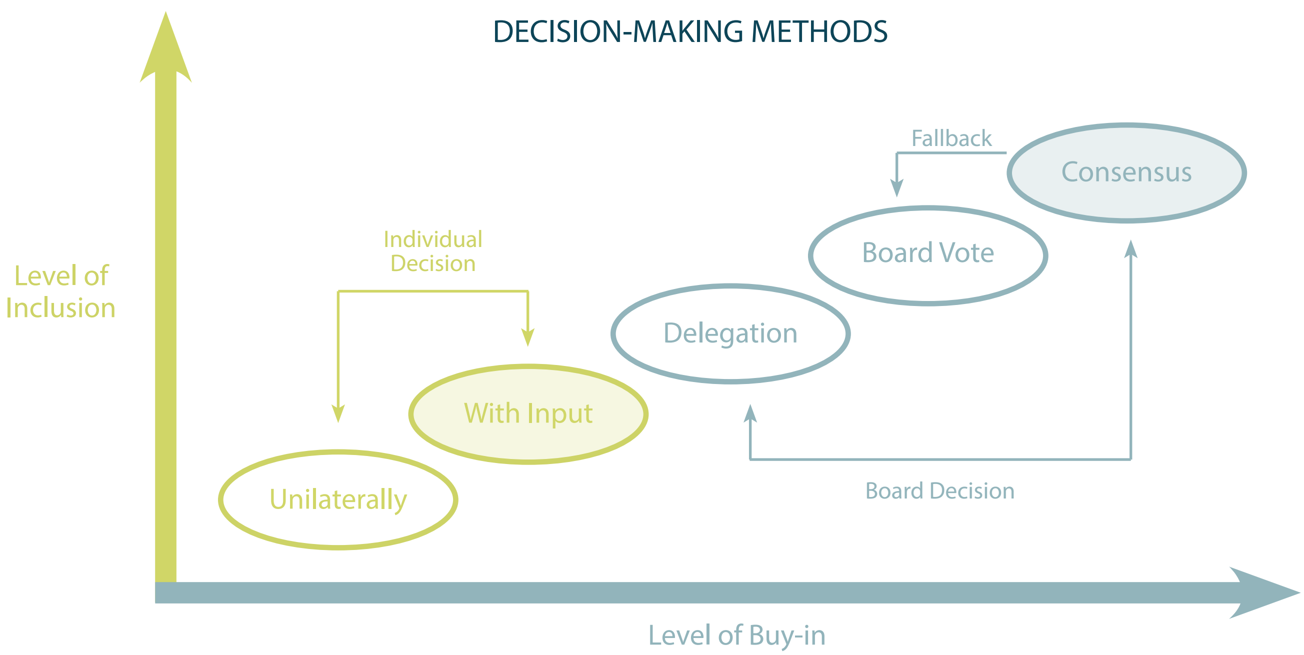
#4 PLAN FOR A GOOD PROCESS:

Lastly, take the time to put in place these practices:

Pre-work: ensuring everyone has clarity before the meeting about roles and responsibilities, underlying principles, goals and context for the decision, and the decision-making method(s) to be used. You may need to clarify the decision-making method as a group.

Time: ensuring people know how much time is allocated for the decision, what happens if the group can't come to a conclusion within that time, and that the meeting leader or facilitator has the skills to manage the use of time wisely.

Follow-through: ensuring that the process and results are documented, that there is explicit authorization to implement the decision, and that the person or people implementing the decision have both the will, the backing, and the resources to enforce.



Adapted from How to Make Collaboration Work by David Strauss

To learn more about effective decision making in your group, see NCFP's Passages Issue Briefs Demystifying Decision Making in Family Philanthropy and Managing Conflict and Family Dynamics In Your Family's Philanthropy.

Worksheet 1: *Who is Involved?*

Use this worksheet to help you and/or your family think through who might participate in what role.
You can complete the worksheet individually or use the questions to spark a discussion.
Keep in mind: There are no right or wrong answers to these questions, yet there are implications for including—and not including—others in your philanthropy.

Family Members: Yes ☐ No ☐

If yes, which ones and how will we define "family?" (Direct bloodline? Spouses or partners? Siblings, nieces and nephews, cousins? Adopted children or stepchildren? Family of choice?)

Trusted Allies: Yes ☐ No ☐

e.g., maternal grandmother, a mentor or coach

Community Advisor(s): Yes ☐ No ☐

e.g., battling a disease; receiving financial assistance from others; observing extreme poverty

What roles might you want to fill and why?

e.g., board of directors, grantmaking or scholarship committee, paid consultant or contractor, staff, informal advisor

Worksheet 1: ***Who is Involved?*** — Continued

Participant	Envisioned Role(s)	Interest	Notes

Interest: Indicate each person's level of interest in being involved based on what you know today: Very Interested (VI), Interested (I), Tentative (T), or No Interest (NI), or Unknown (U).

Notes: What factors might limit their participation (e.g., time, not old enough yet, geography, career or family responsibilities)? What concerns might they have before they say yes?

Worksheet 2: *Structure of Roles*

Now that you've thought through whom you'd like to involve in which roles in your philanthropy (Worksheet 1), you can put more structure to those roles. Consider the questions below for each group or role you wish to fill.

ROLE: ______________________________

e.g., board of directors, grantmaking committee, or community advisory board

What primary responsibilities or decision-making authority will the group have?

What's the ideal number of people involved? Will the number of participants increase or decrease over time? Will the type of participant change over time (family, non-family)?

How long will members serve? What term limits or rotation policies can we establish to bring a fresh perspective and give other members a turn?

Will all participants have an equal voice? If yes, how will we ensure everyone's voice is heard? If no, who will serve as decision makers, and who won't? What other informal ways might members participate?

How often might the group need to meet? And how much work might there be in between meetings?

How will the group be evaluated? How will you define success or failure in its work?

Worksheet 3: ***Eligibility, Selection, Election, and Preparation***

How will you choose members for the roles you want to fill? Use the questions below and answers to Worksheets 1 and 2 to prompt your thinking. You might use the same answers for multiple groups.

ROLE: ______________________________
(from Worksheet 2)

1. What eligibility criteria can we set to make our decision making easier and clearer?
   e.g., a minimum and maximum age, required education level or certification, depth of professional expertise, volunteer experience, or willingness to put the family' goals above personal goals

2. What happens if a participant doesn't perform or cannot meet the time or participation requirements?

3. How will we select members of the group?
   e.g., self-nominations, nominating others, recruitment, appointment by advisors, open applications

4. How will we elect members of the group?
   who makes decisions or recommendations, with what process, and with what advance notice?

5. How will we prepare current and future members?
   e.g., education programs, policy manuals, volunteer experiences, or apprenticeships

Worksheet 4: *Governance Policy Checklist*

Use this checklist to review gaps in your policy implementation and/or determine if any need to be updated. Start with those recommended by the IRS, especially if you're using a legal entity (e.g., business, foundation, or investment fund) to achieve social impact. Then implement the policies recommended by NCFP and others as most important for effective governance. Then, review the additional policies to determine which may apply to your current and future needs.

In Place Yes/No	Last Updated	Formation Documents
		Legal papers such as articles of incorporation, bylaws, declaration of trust, or fund agreement; annual federal and state tax filings
		Guidance from founders such as a donor intent letter or video, legacy video, or purposeful trust

In Place Yes/No	Last Updated	Policies recommended by the IRS
		Conflict of interest: the criteria for real or perceived conflicts and how the group will disclose and manage the conflicts. Some donors will add in ideas around ethics or values. In practice, decision makers should annually sign disclosures of conflicts.
		Whistleblower protection: to protect an employee or volunteer from retaliation in a situation where they choose to report misconduct (also required by the Sarbanes-Oxley Act).
		Document retention and destruction: to protect from accidental or intentional destruction of paper and electronic files and communications (also required by the Sarbanes-Oxley Act).
		Joint venture: to identify, disclose, and manage any relationships with for-profit businesses.
		Gift acceptance (if you're fundraising): to review, accept, and substantiate contributions.

In Place Yes/No	Last Updated	Policies recommended as essential by NCFP
		Philanthropic purpose or family charter: including elements such as vision, mission, values, principles, and donor intent.
		Statement of responsibility or job description: for the board (or another governing group), built on information in your bylaws and articles of incorporation.
		Code of conduct: the ground rules for behavior, communication, and decision making.
		Confidentiality: to clarify which information is not to be shared with the public and/or with advisors, consultants, and grantees. Note that nonprofits and foundations must disclose their annual tax returns to the public.

In Place Yes/No	Last Updated	
		Grantmaking (or scholarship, fellowship, etc.): to clarify priorities for impact and roles in recommending, reviewing, and awarding.
		Investment (if applicable): includes philanthropic purpose, definitions of duties, objectives and asset allocation framework, risk and liquidity, and operations and decision-making guidelines. Some philanthropic vehicles have a spending policy in this document, while others make that a separate policy. Some include impact investing guidelines in the primary investment policy while others create a different policy.
		Diversity, equity, and inclusion: a statement or policy describing the organization's overall goals and values. Having this in place will then cause revisions to other policies and practices (e.g., diversity of the board or a culture of inclusion in grants processes).

In Place Yes/No	Last Updated	**Policies to add over time** Add these policies to create more clarity, especially before new generations, new advisors or volunteers, or new staff join you in your work.
		Committee charters or job descriptions, which might be informed by your bylaws.
		Criteria for service for both board and committee members.
		Meeting frequency and agenda formulation.
		Financial policies addressing compensation, budgeting, spending authority, travel, and reimbursable expenses.
		Communications or media and social media.
		Assessment and renewal of the board and organization.
		Others that put your philanthropic purpose into action such as green or sustainable workplace, employee volunteerism, employee wellness.

Worksheet 5: *Transparency* [11]

How open and accessible will your philanthropy be to others? Philanthropists and funders consider a range of transparency options, including:

- Anonymous: Our work is done in a way that my/our identity is untraceable.
- Opaque: We keep the information others know or see to a minimum.
- Situational Transparency: We will be transparent with a select set of people or organizations we trust to help us achieve our philanthropic purpose.
- Transparent: We provide easy access to information about our goals, processes, and impact.
- Public advocate: We use our philanthropy to attract attention and resources publicly and proactively to a cause or community.

It helps to create basic guidelines around transparency before you are too far along in your philanthropic journey and to revisit your assumptions every few years. Use the worksheet below to draft your desired practices.

1. To whom do we feel most accountable in our philanthropy?
   e.g., founding donors, grantees, customers of a family business, or children with no home

2. How could being more anonymous or opaque help our philanthropic purpose or goals?

3. How could being more transparent or public help our philanthropic purpose or goals?

[11] Adapted from ideas in Transparency in Family Philanthropy: Opening to the Possibilities, Elaine Gast Fawcett, 2018; Foundation Transparency: Opacity – It's Complicated, Robert J. Reid, 2018; and What is My Giving Style?, Rockefeller Philanthropy Advisors, 2012.

Worksheet 5: *Transparency* — Continued

4. How might we use transparency to understand ourselves and others in a more meaningful way?

5. You might choose different levels of anonymity or transparency depending on the type of information and the audience. Use this table as a starting point for your thinking by completing each cell with the definitions at the top of the previous page or your own terms.

Desired Level of Transparency or Anonymity to These Groups
(anonymous, opaque, situational, transparent, public advocate)

Information to Share	Family members (not on the board)	Friends	Most trusted nonprofits	General public	Other:	Other:
Philanthropic Purpose						
Names of decision makers						
Family history or story						
Grant guidelines						
Governance policies						
Impact of grants						
Contact info to ask questions						
Other:						
Other:						

Credits

About the National Center for Family Philanthropy

NCFP is a network of philanthropic families committed to a world that is vibrant, equitable, and resilient. We share proven practices, work through common challenges, and learn together to strengthen our ability to effect meaningful change. Our range of programs and services support family philanthropy at its many points of inflection and help families embrace proven practices and advance momentum. Explore our resources, all rooted in a Family Giving Lifecycle by visiting www.ncfp.org.

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