Family Governance Meets Family Dynamics:

A Survey and Strategies for Successful Joint Philanthropy

PASSAGES
EXPLORING KEY ISSUES IN FAMILY GIVING
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The Smith family* had been running their foundation for about four years when it hit a roadblock. Mr. and Mrs. Smith, in their late 60s, had funded the foundation with proceeds from the sale of a family business. They thought the foundation would be a good way to continue giving to the causes they had historically supported—namely, the arts and sciences—and to keep their family together.

When the Smiths set up the foundation, they did not give much thought to how it would be governed. Their lawyer used standard governance documents. The board consisted of the founders and their lineal descendants—Sally (age 35), Seymour (age 32) and Sandra (age 25). Sally and Seymour had moved away, but returned home a couple of times a year. Sally, an investment banker, was married to a non-profit executive who was an expert in scientific research. Seymour, a professor, was engaged to a doctor. Sandra, unmarried, was living in Asia in the Peace Corps and returned home once a year.

For its first two years, the foundation did not hold meetings; instead, Mr. and Mrs. Smith wrote checks from the foundation's account to their usual charities. In the third and fourth years, the Smiths called an impromptu meeting with Sally and Sandra on the day after Thanksgiving; Seymour was not home for the holiday. The family members who were present discussed some ideas for grants, and when it came time to making decisions, relied upon consensus. Since Mrs. Smith had very strong views about the organizations she and her husband had funded in the past and the children had not been involved before, her recommendations were met with little vocal resistance. After the meeting, however, there was tension among the family members. Sally wondered why her husband, an expert in scientific research who could have added to the discussion, was not invited. Sandra, who was committed to international development, was concerned that the issues the family funded were not as compelling as the needs she faced every day. Seymour was not home for Thanksgiving and therefore missed the meeting entirely, leaving him feeling excluded from important family decisions. The children felt disenfranchised. When their parents proposed meeting again next year, the children said they would rather spend their time elsewhere.

Despite their good intentions, the Smiths found themselves in the same situation that many philanthropic families encounter. What can they do differently?

(*The Smiths are a fictional family, drawn from the authors' research on family governance and family dynamics.)

NATIONAL CENTER FOR FAMILY PHILANTHROPY

INTRODUCTION

Private philanthropy is increasingly a family affair, with unique opportunities and challenges. While many families enjoy working together and are making a positive difference through their philanthropy, other families struggle with two areas that can be especially troubling: *family dynamics* and *family governance*.

Family dynamics are the ways family members interact with each other individually and as a distinct system. Often, family members transfer these ways of interacting to their philanthropic experiences when they work together.

Family governance is the framework in which a family manages its joint affairs. A family applies guiding principles to general policies and specific practices for carrying out the roles and responsibilities of their joint activities, such as family philanthropy.

To learn more about the ways family dynamics and family governance affect family philanthropy, we partnered with the National Center for Family Philanthropy to undertake the most extensive survey to-date on these issues. We chose the National Center as our partner because its constituency was broadly representative of family philanthropy and because its leaders were interested in supporting knowledge development in the field. In our experience, dynamics, especially when families are unaware of them, can make philanthropic interactions more difficult, especially in families without clearly articulated family governance systems. We hoped to discover how family dynamics were understood by philanthropic family members and to explore whether applying solid family governance could help manage and counterbalance them.

The survey revealed that families with some awareness of their own family dynamics and that take charge of their family governance processes are more likely to have effective and enjoyable philanthropic experiences. Conversely, families who have not yet examined their interpersonal family dynamics or have treated family governance informally (or both), face greater struggles. In fact, "When unresolved family 'stuff' is too intense," one respondent said, "it spills over into family business and family philanthropy meetings. Often though, [unresolved family stuff] never is fully identified as such, rather it's named as something else." Other respondents echoed the sentiment, saying they thought they could deal with their philanthropy as a family but instead found that it was family that became the problem.

Nearly 90 families responded to our online survey, and several provided input in person or by telephone. All respondents were engaged in joint philanthropy, whether informally or through private foundations and donor-advised funds. Asset bases ranged from $1 million to more than $200 million. Our survey included families just starting joint philanthropies as well as mature organizations with more than 50 years of experience.

We hope this paper helps families engaging in philanthropy together by, first providing an overview of family dynamics and family governance to aid in identifying some of the key issues, and second, suggesting solutions to encourage more effective family philanthropy. Our findings may be especially helpful to families who are starting (or thinking about starting) a joint family philanthropy. The findings may also encourage families currently engaged in joint philanthropy to review their practices and, if appropriate, make changes to enhance their effectiveness.

A final note: Our survey would not have been possible without our respondents' candor in sharing the opportunities and challenges of family philanthropy. To protect their privacy, we have not used their names or the names of their foundations. See page 9 for a description of the survey methodology.

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FAMILY DYNAMICS

Family dynamics in the Smith family have not changed for decades. Mr. and Mrs. Smith have an especially close relationship, built through years of working side-by-side. While they were building their business, they did not have much time for their two oldest children. But the youngest, Sandra, had the advantage of a close relationship with her parents. Still, she often felt cut off from the bond between Sally and Seymour, her two older siblings who were closer in age.

Because the family had not had much opportunity to communicate about and make decisions as a group in the past, they tended to defer their grantmaking decisions to Mrs. Smith, who was quite articulate and had a take-charge approach to family matters. During the first two years the foundation existed, the children had no voice; the parents made grant decisions without their input. But at their first group meeting the day after Thanksgiving, the two siblings who were present felt overwhelmed by the new challenge of being on the board and learning the grantmaking craft. Although they were highly competent adults, they reverted back to their childhood roles. They felt they needed to honor their parents' wishes because it had been "their" business sale that started the foundation, despite the fact that the children were substantial owners of proceeds from the sale and were foundation board members.

None of the family members had considered how they related as separate individuals or as a connected group.

Family dynamics comprise the sum total of a family's ways of interacting with each other. Gender, sibling relationships, and the number of members, to name a few variables, affect family interactions. The family dynamics stemming from these variables are patterned over time and tend to repeat themselves in predictable ways. Firm alliances and distances appear between family members, especially when they share assets. In one family, the youngest of three siblings often felt like she was still playing her role in growing up—the one who ultimately made decisions based on the input of the family member with whom she was allied for each particular issue. Her older siblings, a brother and a sister, spent their time before meetings trying to enlist her support. In another situation, first-generation family foundation members excluded their offspring; an exclusion that continued into the third generation and led to conflict that put the foundation's operations at risk.

...entrenched familial patterns around power, control, leadership, authority and decision-making are important to understanding a family's dynamics and how they relate to governance.

Such entrenched familial patterns around power, control, leadership, authority and decision-making are important to understanding a family's dynamics and how they relate to governance. Acknowledging these interactive patterns may suggest the kinds of formal family governance policies and practices needed to assure that all family members know and fulfill their roles in the family philanthropy. Family governance policies may also be used to counterbalance natural alliances that the family deems unproductive.

Another area that affects family dynamics is the desire for individual members to be connected to the family while at the same time desiring independence. "Our family believes that we all must do everything as one big happy unit," said one survey respondent, but "that always seems to lead to the opposite. There are lots of reasons for us to do things individually, including some of our divergent interests."

At the other end of the spectrum are family foundations where members distribute funds separately, with few or no connections that make their interactions a family foundation. Several respondents noted that when they began their joint efforts, most of the work was individually based because they were unable to define a joint mission and vision for their giving. "Without some mechanism for individual giving," said one respondent from a large multi-generational foundation, "getting agreement on the collective giving seemed impossible." Creating family governance policies that reflect the dual desire for individual and joint grantmaking can help family members feel satisfied overall.

FAMILY DYNAMICS—BASIC CONCEPTS

The following concepts are critical to understanding how families function together. They may help shed light on some of the family dynamics that could be at work in family philanthropy.

FAMILY AS A SYSTEM: Individual behavior is really part of the whole—to understand any one person, his/her behavior must be viewed in the context of the family system, the way in which he/she interacts with others. Families have a way of moving together and acting together, with each person having his/her part in the play.

TRIANGLES: The basic building blocks of human relationships. Triangles focus on how people are joined together and disconnected. When interaction between any two people is dependent upon where they are with regard to a third, a triangle is established. Relationships in which each person has direct interaction with the others are the best practice but hard to achieve when one family member does not want to have conflict or hurt someone else.

BIRTH ORDER: Provides a basic framework for understanding how an individual tends to behave when in a group of peers. When those peers are siblings, family dynamics come into play. In addition, the gender of siblings is significant to understanding how birth order impacts behavior. If a family member is an oldest daughter of daughters, her way of dealing with younger men and women peers will be different than an older brother of sisters. The position itself defines certain themes—an oldest sister might tend to be directive while a youngest might be more subtle in leading.

SEPARATENESS/CONNECTEDNESS: Throughout their life cycles, families go through a process of expanding and contracting. When adding new members through marriage, birth or adoption, a family is expanding and focused on connectedness. When family members are in adolescence and young adulthood, or going through divorce, the family is focused mainly on forces that are moving its members outward, so separateness comes into play. Managing both connectedness and separateness is necessary for a family's long-term survival. Families must have ways of staying connected while at the same time allowing for individuality and differences or, as we call them, separateness. Families who share assets often seem to struggle with how to maintain a sense of individuality of family members while doing things and making decisions together. In fact, it is our experience that most family squabbles and even lawsuits arise out of the family's difficulties with family members not feeling heard and feeling that their individuality has not been conveyed.

MULTI-GENERATIONAL PATTERNS: By using intergenerational triangles and the tendency of any system to perpetuate what it knows, a family tends to develop ways of interacting that survive many generations. Families and those who work with them will learn a great deal about a family's dynamics by doing at least a three-generational view of the family through a "genogram." A genogram is a diagram that uses a family tree to plot specific family events, such as dates of birth and death, and also the alliances and cutoffs that make up family relationships over generations.

FAMILY GOVERNANCE

The Smith family had a governance system for years but did not realize its implications. When Mr. and Mrs. Smith set up their business 30 years ago, they were the sole owners. The Smiths had also been jointly responsible for the family's other businesses, trusts and more. They were co-owners, managers, beneficiaries and trustees. In the early 1980s, they transferred a substantial portion of their business ownership to trusts for their children, based on advice from their tax advisors. From a legal standpoint, the governance system was complex. The family members had extensive legal responsibilities as board members and trustees. But their operations in the first two years indicated they were not aware of their legal duties as foundation board members.

When it came to grantmaking, the family approached its philanthropy through ad hoc decision-making rather than formal principles, policies and practices outlined by a formal governance system. They did not put much thought into policies such as qualifications for board membership. Spouses with useful board qualifications like Sally's, whose husband was a scientific researcher, were passed over. The interests of the second generation, like Sandra's penchant for international affairs, played little part *in the family's grantmaking. The Smiths had not considered their collective values and vision.*

Despite the formal governance structure established by their lawyer and the legal responsibilities of all family members as board members, the Smith parents wrote foundation checks in the first two years as though they were doing their own individual grantmaking. By spontaneously calling the first family foundation meeting the day after Thanksgiving, they set a tone of informality and overlooked the absence of one family board member.

Families who engage in joint philanthropy often work together in a variety of ways, including managing a family business or family trusts. There is a special way in which these joint endeavors differ from the rest of the family's interactions—these activities create a ***family governance*** system. That is, certain family members are given authority, formally or informally, to direct and guide the behavior of others. This is the essence of governing, whether publicly or in private enterprise. Successful family governance goes beyond legal compliance and, done properly, involves applying the framework and processes described on page 6.

Virtually all families have some kind of family governance system, as noted in *Family Governance: A Primer for Philanthropic Families*, published by the National Center. But few families know the details of their family governance systems or how to assure that the systems work effectively for them. Indeed, as noted and applied to family philanthropy in the Primer, it is clear that families who recognize this reality and consciously create and implement their own systems have the best chance of success with their philanthropy and, in addition, their other joint activities.

Effective family governance requires a family to consider and implement systems and processes on three levels: **principles**, **policies** and **practices**. At the highest level, the family must consider its own values, vision and mission when establishing its principles. For example, a family engaged together in philanthropy together might cite community involvement as an important family value. By making this value clear, the family can then find a way to put this value into action through its philanthropy. The family's principles must guide and be translated into specific policies, which constitute general rules and guidelines. A policy might indicate that any family member wishing to serve on the foundation board must meet certain qualifications, such as reaching age 21 and having expertise in one aspect of the foundation's mission. These principles and policies, in turn, guide the family's day-to-day practices, which might include having several meetings per year, distributing reading materials in advance of meetings, and arranging for site visits for all board members to connect more closely with the community.

Our survey found that families often go directly to philanthropic practices without ascertaining their own principles, including the family's values. For example, some families view giving as a basic value of their culture or their religion, such as some Jewish families where Tzedakah (charity) is important and expected. In other families, the need to give evolves when a family realizes the potential tax savings of philanthropy. Still other families consider giving when they have enough money to take care of their own needs and view taking care of others as the next responsibility. Several survey respondents began their foundations when an elder in the family died, and the money from that estate was not necessary for the families' ongoing financial needs; the families viewed the money as a potential way of working together on a project(s). Knowing the values that led to a foundation's creation can guide philanthropic policies and practices.

Our survey also found that family governance policies focusing on involvement of family members (whether on the board of a foundation or in an informal capacity), varied widely. Decisions around job qualifications and accountability to constituents, such as family members and the public, also varied. Further, some family members did not fully understand federal, state, and local laws, including those established by the Internal Revenue Service, which regulate tax-exempt status. While matters of legal compliance are critical, they were not a specific focus of the study because they have been covered extensively elsewhere (see the "Other Resources" section) and because we believe that proper legal compliance tends to be a reflection of effective family governance processes.

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THE FAMILY GOVERNANCE SYSTEM

Note: The examples listed above are not meant to be exhaustive, but rather a sample listing.

Formal family governance systems can help families strengthen their joint philanthropy. Effective systems comprise three key components:

- ∞**PRINCIPLES:** The vision, mission and/or values that are commonly held by family members engaged in a joint enterprise. Principles may be articulated in a family's mission statement, vision statement or simple statement of values. For philanthropy, these principles may translate into a foundation's mission statement. For example, community involvement may be an important value that family members hold in common. This value might become a principle that guides the policies and practices of a family's formal governance system.

- ∞**POLICIES:** The application of family principles to general rules that govern the family's joint endeavors. For example, a family which values community involvement may set a policy that requires family members to participate in site visits as a condition of participation on the foundation board.

- ∞**PRACTICES:** The implementation of family principles and policies in day-to-day operations. For example, a family may choose to hire staff to run its philanthropy or may choose to manage operational issues on its own.

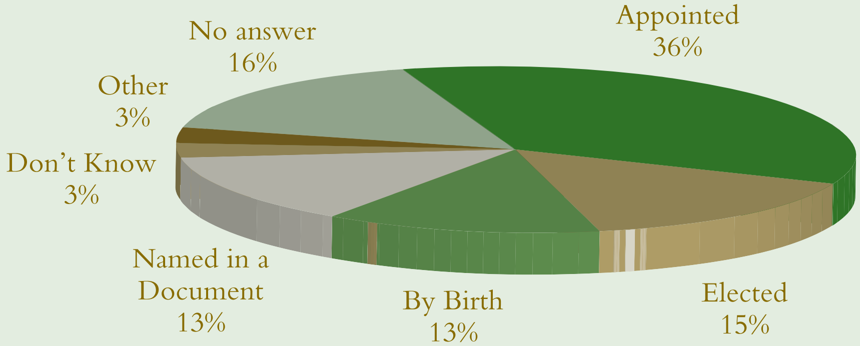
KEY SURVEY RESULTS*

1. Family dynamics trump governance

   To a large extent, family dynamics has a greater impact on the actual operation of joint family philanthropy than governance does. In foundations with asset sizes of less than $10 million for example, most positions of authority, such as trustee or director, were appointed without a term of office and were frequently held by family members or family associates. There was a common expectation that family would be involved in the philanthropy across generations, with little indication that professional expertise was a prerequisite for entry into or continued involvement in family philanthropy. These are strong indicators of the importance of family dynamics, as opposed to governance principles, in actual practice.

Attaining Authorative Positions in Philanthropies With an Asset Size of Less Than $10 Million

How do people attain positions of authority in your philanthropy?



(*The surveys were quite helpful and in most cases the trends were clear. Notably, however, respondents skipped a significant percentage of the questions asking for detailed information. In general, this seems to indicate that the respondents' knowledge may be superficial, especially about the governance aspects of their family philanthropy. Further study to clarify this area would be helpful.)

2. Unless a conflict arises, families generally take an informal approach to their joint philanthropy, especially in the early years.

   Informality was reflected in several areas. For example, the majority of families indicated either that they did not have terms of office or were unaware whether there were any terms of office for the leaders of their philanthropy. In other cases, while most respondents said their family philanthropy had a mission, there was little specificity about it. More often, the mission appeared to be generally defined by the founder across all years with little input from the rest of the family. Families also took an informal approach to inclusion in their joint philanthropy. While most respondents indicated that their governing documents did not require participation to be limited to family members, most families, in fact, did limit participation to family members. Few outsiders were involved, especially in the early stages.

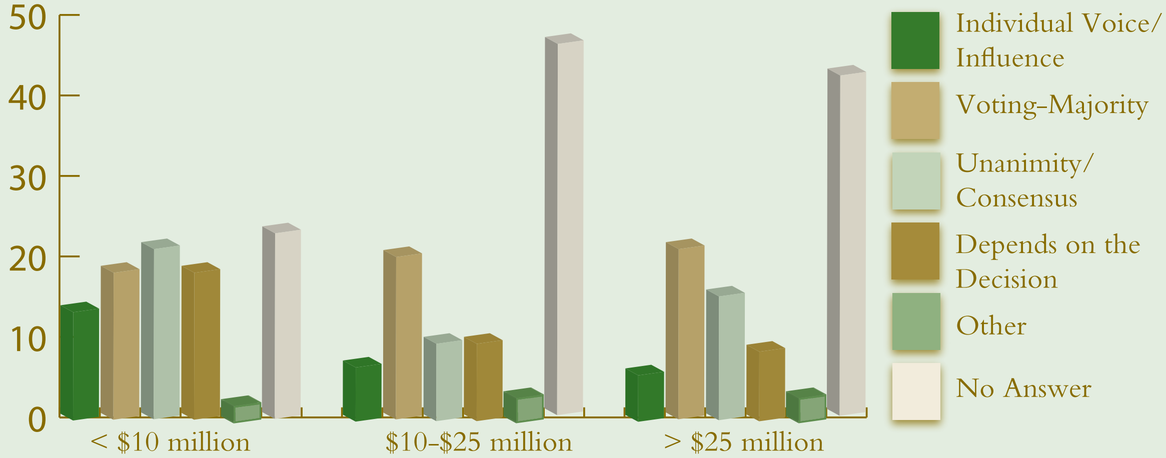
Terms of Office

Are there terms of office?

3. Decision-making is generally dominated by a founder, elder or experienced family member.
   The majority (59.3 percent) of the respondents said their documents did not define how grantmaking decisions were to be made. But as the chart below shows, for those families who did attempt to define how decisions were made, it seemed that they thought the documents most likely demanded majority vote or consensus. When the decisions were made by consensus or by a loosely defined process requiring the whole group to participate, the families generally deferred to an individual voice or influence.

Approach to Decision-Making

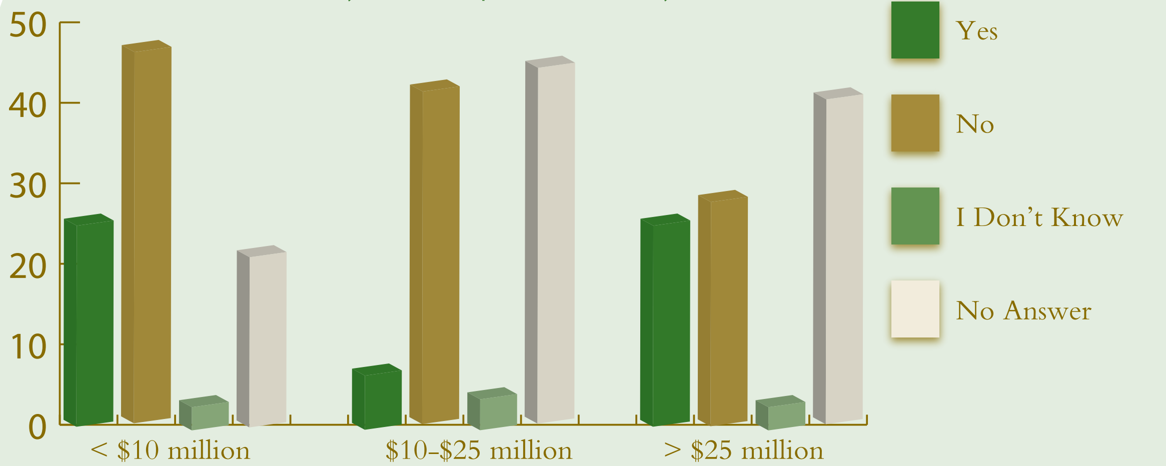
How does your family approach its philanthropy decision-making process?



4. Most families have not yet defined their own family governance principles and policies, which could serve as a guide to their family philanthropy.
   While most respondents believed that their own family mission and values were reflected in their philanthropy, many had not articulated the family's sense of itself. One respondent said her family had never thought of things in terms of how the mission of the family's philanthropy fit into the family's overall sense of what it was, its *raison d'etre*. The respondent added that perhaps looking at who they were as a family might have assisted members in thinking through who they wanted to be as "givers."

Families With Written Family Policies

Does the family have written policies for the family as a whole?



ABOUT OUR STUDY

This study evolved from the practices and subsequent discussions of the primary authors. Although we come from different disciplines (law and family systems therapy), we have both observed families who faced similar challenges regarding their philanthropy. Families were unclear about the intersection of family dynamics and family governance and were, instead, falling into familiar interpersonal patterns that often led to uncomfortable situations.

After agreeing on the particulars of our partnership with the National Center for Family Philanthropy, we developed questions for an online survey that we sent to a large group of National Center constituents. There were 44 questions in the survey. We then chose several respondents to interview in greater depth.

We designed our questions to elicit the families' values, understanding of the structures, formal operations, decision-making and conflict-resolution strategies used in conducting their philanthropies. We conducted our interviews by phone and explored how families made decisions, what family members thought was working and not working, and how they would describe their philanthropic processes. We were also interested in how families gained knowledge about philanthropy and how families integrated such knowledge into their grantmaking decisions.

Of the nearly 1,000 invitations, 89 respondents participated. While we wanted several members from each family philanthropy to respond to the survey, we were pleased to involve one family or staff member. The data sample was not large, but we believe it was fairly representative of family philanthropy as a whole.

In this article, "family philanthropy" includes all forms of joint giving by a family, through formal (for example, private foundations or donor-advised funds) and informal means. Our respondents generally reflected the overall demographics of families engaged in joint philanthropy, although the group may have been slightly weighted toward older and larger foundations than exist in the general population. Approximately 51 percent of surveyed families had been engaged in joint philanthropy for less than 10 years. About 40 percent had been working together for 11 years or more. Nine percent had been in family philanthropy for more than 50 years. In more than half of the group, at least three to five family members were currently involved in the work, and 75 percent expected to have involvement by multiple generations. Thirty-eight percent held between $1 million and $10 million in assets. Twenty-seven percent had foundations larger than $50 million. More than 70 percent of the philanthropies distributed less than $1 million per year, and only 28 percent distributed more than $1 million. Almost 71 percent had articulated a philanthropic mission.

Seventy-four percent of our respondents represented private foundations, with the rest being less formal. Many families used direct gifts and donor-advised funds. Twenty-two percent offered their names, email addresses and phone numbers for further interviews. We interviewed one family foundation in each of the size categories.

While the survey did not specifically categorize donor-advised funds separately, it appears that many of those families thought that governance and dynamics did not apply to them. In fact, donor-advised funds are highly regulated, and families should obtain as much information as possible from their advisors about how their donor-advised funds should be legally operated. Also, families using joint donor-advised funds must work together in the same way as those who are on the boards of private foundations.

STRATEGIES FOR SUCCESSFUL FAMILY PHILANTHROPY

The Smiths are at an important moment, both for the future of their foundation and for their family itself. They now have an opportunity to go further and define their own governance system to move toward a productive way of operating as a group. Rather than assuming that the children's disenfranchisement is inevitable, they should take the opportunity to come together on a higher level than in the past. Now is the time to call the family together to consider the future of the family and its philanthropy. An outside facilitator should probably be called in to help with the family's dynamics and governance.

The family could have a meeting or series of meetings to explore their common vision, mission and values. It will also need to consider establishing policies such as proper qualifications for board members. The alliance of the parents as a generational group might be counterbalanced by having a policy for decision-making that incorporates both generations and/or invites the addition of outside board members. An outside facilitator may be able to counterbalance the voices of the parents, so that Mrs. Smith's isn't the dominant voice.

The family might be able to balance separateness and connectedness by establishing the need for a common grantmaking pool and smaller individual pools over which each family member has discretion. Alternatively, the parents could have a separate pool for their own grantmaking and a joint pool to promote group giving. It is important for the Smiths to step back from the pattern already created, which has been informal and which they have dominated, in order to pull the children into the fold and come together to discuss their common purpose. To counteract the children's feelings of disenfranchisement and support their future involvement, their input must be valued and important.

The survey results provided insights into the challenges faced by the Smiths, who are representative of the philanthropic families who responded to our survey, and confirm that they are not alone in their quest for a more enjoyable and effective philanthropic experience. Based on a review and analysis of the responses and our professional experience, we set out below some strategies to help families with the complex issues of family dynamics and governance in order to achieve successful family philanthropy.

1. Learn More About Your Family's Dynamics

Families often begin joint philanthropy as a way to stay together or, at a minimum, as an opportunity to start working together. However, some of our respondents discovered that the challenges of working together often exacerbated existing family issues. To a large extent, we found that family dynamics had a greater impact on joint family philanthropy than family governance systems did. The primary reason may be that family members did not understand how a family governance system could help ameliorate troublesome interpersonal dynamics. Families might find it helpful to see their own dynamics in a more objective fashion.

Family dynamics often are revealed in the ways in which family members are included in their family philanthropy and the expectations around their involvement. While it is not currently the norm, involvement in the family philanthropy should not necessarily be tied to merely being a member of the family. By providing some philanthropic education and including outsiders early in the process, some traditional communication patterns might be counterbalanced. Family members might also observe some of the dynamics that already exist and see how they play out during their philanthropic discussions. Outside help in these areas could provide an opportunity to learn new ways of relating to each other.

Many families struggle with the weight (unspoken or not) of the founder's voice and legacy on their philanthropic endeavors, and many families indicated they had not considered the foundation's mission. By openly addressing these issues early on, families can overcome ongoing confusion and tension among family members. One way to do this, as a group, is to document the family's history and heritage and work on a roadmap for future generations. Some families use a weekend retreat or a series of focused meetings with a facilitator to create a common vision, mission and values.

Generational differences also play a role in how family members experience philanthropy. There are many ways that a formal family governance system can redress generational differences. For example, younger family members might join the board as non-voting members to gain experience and later become full members. This approach accommodates different values, interests and communications styles across generations and can positively influence the way group decisions play out. For other strategies, see the National Center's *Successful Succession: Inspiring and Welcoming New Generations of Charitable Leaders*.

2. Collectively Create A Family Governance System

Most families in our study had not yet focused on their own family governance system. Their philanthropy was not tied to the overall principles and policies of the family, and their practices often reflected a lack of awareness of the ways in which the philanthropy had been intended to function. Several respondents believed that because the philanthropy was funded with their money, it was up to them to decide how to use it. "We have family members on the board who have never had control over their own money," one client advisor told us. With several family members often involved—sometimes having little knowledge of their family governance system—family dynamics became more central to the grantmaking process than grantmaking itself.

To avoid problems like these, encourage family members to establish and periodically discuss a family governance system from inception, rather than letting it evolve in the midst of a family conflict when tensions are high. Determine principles and policies before creating legal documents such as bylaws, trust agreements and articles of incorporation. Also agree on a schedule for board meetings. By jointly crafting and understanding family governance documents, there might be less room for tension among family members about the rules applying to them. While families can adapt their governance systems over time, they will bring common guidelines to the family philanthropy and reduce the emphasis on members to regulate themselves.

Finally, governance documents should reflect the family's intentions and expectations. If the governance system in place conflicts with actual practice or is contributing to ineffective family dynamics, consider revising it. Our survey found that as a family's philanthropy matured, and more members were involved, from within and outside the family, troublesome family dynamics gave way to a more consistent governance structure.

3. Develop Decision-Making Processes That Work for Your Family

The majority of our respondents said their documents did not define how grantmaking decisions should be made. In other cases, respondents said their decision-making processes might be inconsistent with the families' governing documents. For example, the by-laws may require a majority vote for all decisions, but the family may be requiring unanimity in practice.

Many respondents indicated they relied primarily on consensus and group discussion to make decisions and resolve conflicts. However, these methods may surface family conflict (see the National Center's *Demystifying Decision-making in Family Philanthropy*). When families made decisions by consensus or by a loosely defined process requiring the whole group to participate, our respondents generally said they deferred to an individual voice or influence. Difficult family dynamics can be exacerbated when differences of opinion are handled in this way.

Without formal decision-making guidelines, there is room for old internal dynamics patterns to emerge. Thus one family that had little written down after operating five years defined itself by the force of the oldest brother's personality and experience. In another family, a living founder's voice often became the one his wife and family members listened to when a decision was necessary. This, in turn, led to disengagement by other family members.

Families might consider using various decision-making models, including rules for decision-making tailored to the type of decision, as noted in the National Center's *Demystifying Decision-making in Family Philanthropy*. A selection of decision-making options is especially important if a family is committed to multi-generational philanthropy. In that case, younger family members should have some decision-making authority at the beginning of their board tenure if they are to be the long-term stewards of the family's philanthropy.

Finally, using family governance documents to guide decision-making may reduce family conflict at the grantmaking table. Outside facilitators might also be helpful in the process.

4. Agree on Qualifications for Family Involvement

Our survey showed that most positions of authority, such as trustee or director, were appointed without a term of office and were

SAMPLE GOVERNANCE POLICY: FAMILY BOARD INVOLVEMENT

The Jones family ties its family mission –promoting healthy relationships and sustainable growth of resources—to its family foundation through a policy on family board involvement.

FAMILY MISSION:

We, the Jones family, are dedicated to supporting each other and the communities in which we live to promote healthy relationships and sustainable growth of our resources. We understand that our greatest resources are our individual members and that through our growth and development, we can best contribute to sustainability of the world and its resources, especially the environment. We share a dream of a world that minimizes environmental impact and promotes ecological practices that are sustainable.

FAMILY POLICY:

All family members who wish to be involved in the family foundation must meet minimum qualifications for board membership to ensure that the foundation is run as professionally and effectively as possible to maximize the impact of our philanthropic contributions. Family members must show their commitment through active involvement on the board, including attendance at a majority of meetings each year and through participation in educational sessions organized by the foundation.

FAMILY PRACTICES:

All board members are expected to gain hands-on experience in the foundation's mission areas.Board members, and younger non-voting members, must attend at least three site visits per year and are expected to review all proposals and provide feedback at quarterly meetings of the foundation. Younger family members can attend board meetings as non-voting members starting at age 10. Each younger family member is assigned an older board member as a philanthropic mentor. Family members, individually and as a group, seek educational opportunities provided by experts in a variety of issues of environmental sustainability.

frequently held by family members or family associates. There was a common expectation that family members would be involved in the foundation across generations, with little indication that experience or expertise was a prerequisite for entry into or continued involvement in family philanthropy. While this informal structure may work for some families, others found that qualified family members felt excluded from philanthropic endeavors and that the family's philanthropy may have been less effective when the level of commitment and expertise varied across family members.

Consider incorporating non-family members early in the life of the philanthropy. Take care that non-family members who join the family board are truly independent and are treated that way, rather than as "quasi" family members who could be affected by negative family dynamics. For example, a lawyer should be selected for his/her expertise rather than because he/she is a friend of the family. Focusing on the relationship could lead to relying on a real-estate lawyer for tax-compliance matters without realizing that he/she may not have the expertise the philanthropy needs.

5. Clarify the Intended Longevity of the Philanthropy

Depending on the point in the philanthropy's history at which the family finds itself, the founder and other family members should also address whether they want to continue the philanthropy for the long-term, if it will be multi-generational, and, potentially, a multi-person undertaking. If the decision is to keep the

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philanthropy short-term, then structure it that way, with clear policies and practices supporting that principle. But if the founder (and family) determines that the philanthropy will have a longer life, not only should the structures used to create it reflect that, but the founder should also seek to obtain input and buy-in from the future leaders of the organization as early as possible. Open communication and collaboration across generations will help alleviate some of the dynamics that present challenges to families with multi-generational philanthropies.

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6. Consider Joint and Individual Grantmaking

An area of concern our survey uncovered was among family members who wanted to feel both fulfilled individually and as members of a group. One way to meet this twofold need is to set aside some funds from which each family member can make "discretionary grants" to the nonprofits of their choice. Members who live far away from where the foundation is based and want to make grants in their home community or who have ideological differences with other family members may find that discretionary grantmaking helps them feel more a part of the foundation's overall work. Discretionary grant making however, should ideally be a limited percentage of the foundation's total grantmaking so as not to take away the opportunity of the family to experience "collaborative" or shared philanthropy. Also note that if the family is operating through a foundation, certain legal restrictions apply to discretionary grants. These grants must still be approved by the whole board, for example, and care must be taken to avoid self-dealing or conflicts of interest. (For more information, see the National Center Passages paper "*Discretionary Grants: Encouraging Participation…or Dividing Families?*")

7. Take Advantage of Education and Support

Most families we surveyed wanted more tools to help them understand what it takes to govern and operate effectively. To achieve this goal, one respondent indicated that her family had come up to speed quickly in its grantmaking by joining affinity groups and learning from other foundation staff making grants in the same issue areas. Other resources for families include:

- **The Council on Foundations**, which offers conferences and publications that showcase some of the best practices in philanthropy;
- **The Forum of Regional Associations of Grantmakers**, a national network of 32 local associations of grantmakers that seeks to enhance the effectiveness of philanthropists in their communities; and
- **Local community foundations**, which typically offer multiple grantmaking vehicles with multiple ways for funders to guide decisions about their grants.
- **The National Center for Family Philanthropy**, which commissions research and hosts educational teleconferences and produces written materials to help families strengthen their effectiveness.

CONCLUSION

For the past few decades, federal, state and local governments in the United States have been reorganizing and decreasing public services. At the same time, an unprecedented number of families now engage in joint philanthropy, informally and through formal structures, such as private foundations and donor-advised funds. The implications for private family philanthropy are tremendous. In a sense, the future well-being of a great part of society now hangs in the balance and will be determined to a large extent by private philanthropy.

Two of the best ways to increase the effectiveness of family philanthropy, and to improve interpersonal dynamics, are to understand and apply family governance systems and to raise awareness of the impact of family dynamics on grantmaking. Families who think about their philanthropies' governance systems, including how decisions will be made, are less likely to be encumbered by family dynamics than families who begin their philanthropies informally, progressing to formality over time. In addition, families who openly address their underlying internal dynamics are less likely to let them get in the way of effective philanthropy. We hope that by researching this topic and sharing the results, we have helped families become more aware of their internal dynamics and helped them apply family governance systems to advance their philanthropic work.

OTHER RESOURCES

On Decision-making

- *Demystifying Decision-making in Family Philanthropy*, by Ann Shulman, National Center for Family Philanthropy, 2003.

On Governance

- *Family Foundation Handbook*. Jerry J. McCoy and Kathryn Miree, Aspen Publishers, Inc., 2001
- *Family Governance: A Primer for Philanthropic Families*, by Patricia Angus, National Center for Family Philanthropy, 2004.
- *Built on Principle:A Guide to Family Foundation Stewardship,* Council on Foundations, 2006.
- *Inspired Philanthropy: Your Step-by-Step Guide to Creating a Giving Pla*n, by Tracy Gary and Melissa Kohner, Jossey-Bass, 2002.

On Grantmaking

- *Discretionary Grants: Encouraging Participation… or Dividing Families?* by Jason C. Born, National Center for Family Philanthropy, 2001.

On the Law

- *Family Foundations & the Law: What You Need to Know*, Third Edition, by John Edie, Council on Foundations, 2002.
- *The Law of Tax-Exempt Organizations*, Eighth Edition, by Bruce R. Hopkins, Wiley, 2003.

On Incorporating the Next Generation

- *Successful Succession: Inspiring and Welcoming New Generations of Charitable Leaders*, by Virginia Esposito, National Center for Family Philanthropy, 2003.

Support Organizations

- Council on Foundations (www.cof.org)
- Forum of Regional Associations of Grantmakers (www.givingforum.org)
- National Center for Family Philanthropy (www.ncfp.org)

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WE WELCOME YOUR COMMENTS.

The National Center for Family Philanthropy, a nonprofit 501(c)(3) organization, encourages families and individuals to create and sustain their philanthropic missions. In doing so, we are guided by a set of values and principles that reflect our own understanding of the importance, opportunity, and genius of family philanthropy. These values include:

1. We value the participation of individuals and families in private, organized philanthropy.
2. We value the donor's right and ability to direct charitable assets through the philanthropic vehicles and to programs of choice.
3. We value both the concern for privacy and the responsibility of a public trust that are inherent in private, organized philanthropy.
4. We value the pursuit of excellence in philanthropy.
5. We value the role that philanthropy and philanthropic citizenship plays in a civil society.
6. We value the participation of new voices in our field.
7. We value collaboration and respect our colleagues in this work.

A full statement of these values and guiding principles is available on our website at www.ncfp.org.

Do you have an idea for a future edition of *Passages*? Contact: dianna@ncfp.org.

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