

Six Keys to Successful Family Foundation Creation

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In recent years, the number of family foundations has grown in the U.S. at an unprecedented rate. Nearly 70% were established after 1990, which means that most family foundations are barely one generation old (Foundation Center). By conservative estimates, family foundations also represent more than 60% of the approximately 90,000 grant-making foundations in the U.S. and there are more family foundations than all other forms combined. (National Center for Family Philanthropy).

There is little doubt families associated with successful businesses have been a part of this large increase in the creation of foundations as they establish platforms to manage much of their philanthropic activities. As these families mature into subsequent generations, they are likely to engage in several key developmental exercises, including the creation of a family constitution, the development of a family council and the formalization of philanthropic practices by establishing a family foundation.

In fact, many families readily list supporting their communities and/or social issues as one of their top priorities or values in moving the business and family forward into the future. The National Center for Family Philanthropy found that older and larger family foundations are more likely to focus their giving geographically, while the newer family foundations (those formed since 2010) are significantly more likely to focus their giving on issues such as education, poverty and social services.

In working with families around these processes, we have identified several key best practices in the development and continuity of family foundations.

1. Establish the Mission of the Foundation

Like other family institutions, the mission — or the purpose — is key to providing guidance to philanthropic work over future generations.

- Does it exist for the successful investment and stewardship of the assets that provide opportunities for family philanthropy?
- Does it exist to evaluate and disburse those funds to qualified applicants?
- Does it primarily exist to further specific family legacy projects or institutions (like a school or hospital) or is funding open to a variety of requests?
- Is the foundation a family foundation that serves to further the family's specific philanthropic efforts, or is the foundation seen as a non-family foundation whose primary function is to blindly receive and evaluate a multitude of requests and then arrive at a decision to either support or reject those requests?

2. Determine the Vision for the Foundation

Literally derived from the Latin word *videre*, or "to see," the foundation's vision is a picture of the future that the family wishes to be created by the formation of a family foundation — both in terms of the community and the family. The vision determines the focus and boundaries on giving.

- What do you want to accomplish year to year?
 - How will future generations interact with the foundation?
 - How does it align with the vision the family has identified for itself and its members?
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- How does it align with the vision of the business?
- For how long will the foundation last?
- What types of gifts are supported (capital campaigns versus operating budgets versus matching gifts only versus new programs, etc.)?

3. Outline Foundation Governance Structures

Treat the governance of the foundation like you would a business to include accountability, role clarity, policies, etc. The administrator will benefit from a job description and an open door to outside advisors, particularly the accountant, to assure that giving amounts are consistent with law and the vision.

Who will oversee the operation of the foundation and the disbursement process?

- Will it be an independent group or will it be family members?
- Will it be a single individual designated to manage the foundation funds, field requests, determine appropriate fit and eligibility and then finally distribution of funds?
- Will it be operated as a family foundation that is a natural extension of the family and the business or will it operate independently of the family's involvement? (This will likely be determined on whether the purpose/mission of the foundation is to serve the goals and objectives of the family or of "worthy causes" as they come to the Foundation's attention.)
- Create clear distribution policies
- Does the foundation operate only as its own entity? Or is there a portion of funds allocated for distribution from the foundation to individual families and/or family members at their own philanthropic discretion?

4. Institute a Board of Directors

- What is the process by which foundation board members are nominated, elected, retired or terminated?
- Will family members serve in these capacities? If so, how many at one time (depending on the overall mission of the foundation)?

- Non-family foundations embrace outside directors more readily to serve the purpose of furthering that foundation's specified mission in contrast to furthering the goals and objectives of the family.
- What expenses is the family willing to support regarding directors' compensation and travel expense that could reduce the amount of money available to charities?
- Should there be term limits for family members serving on the board?
- Provide a clearly articulated and effective generational transition mechanism.

5. Create Pathways for Family Involvement

- How many family members from a single family should be on the board at any one time and should there be rotation? Can a spouse serve as a director?
- Is it realistic (meeting schedule) to have a junior board that oversees and distributes a limited amount of funds?
- How will the values of philanthropy be taught to the next generation? What role will individual families play, and what role will the foundation play as a teaching tool?
- What are the best ways to engage the younger members of the next generation?
- Whose role is it to pass along the ideals of charity and philanthropy to future generations and at what point can next generation members be considered to join the foundation's board?

6. Investment

Structure the investment committee with objectives that are consistent with the vision (see above), and staff it with knowledgeable people. Develop a thoughtful investment process that will sustain and grow the foundation assets, whether on an annualized basis or over extended periods of time.

- Will the family business operation make annual contributions to the foundation in order to provide some sustainable growth?
- How will the foundation be funded in the long term? Will it include simple annual infusion/gift from company sources? Will that gift be based on

a percentage of profits (one family designated 10 percent) or will it be simply an annual amount? Will it come from a specific endowment? Or a combination of those two?

- Will the foundation actively look for matching opportunities? Not just published opportunities, but partner with other grant makers.

Developing an effective foundation can be an extraordinary way for a family to give back to its communities. It can also serve to draw the family

together on a path of shared giving that stands as a strong legacy to all those family members who came before, and set the family on this successful journey. Like anything else in life that is worth doing, it is hard work — but richly satisfying.

For additional ideas on how to bring your family's philanthropic visions to life, excellent resources are available through the National Center for Family Philanthropy and the Council on Foundations.

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To learn more about our firm and how we serve families like yours, call us at (773) 604-5005 or email us at info@thefbcg.com. There is absolutely no obligation.

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