

FOUNDATIONSOURCE



Foundation Transitions

/ A GUIDE FOR
WEALTH ADVISORS /



**“THE ONLY THING THAT IS
CONSTANT IS CHANGE.”**

— HERACLITUS





Introduction

Just like the individuals and families who establish them, foundations change with the passage of time. And because nearly 90% of all foundations are set up with the intent to exist in perpetuity, their success depends on their ability to prepare for and manage change. This booklet provides guidance for the necessary thought work that leads to foundation preparedness.

There is no one-size-fits-all prescription for successfully weathering a foundation transition. Not only is each foundation unique, but each foundation is constantly evolving, gaining complexity over time. As new members and new generations seek to put their own stamp on everything from grantmaking to governance, the foundation may find itself struggling. The challenge isn't merely a transition, but also the internal stress of balancing the energy and engagement of new blood with the experience and traditions of its senior members.

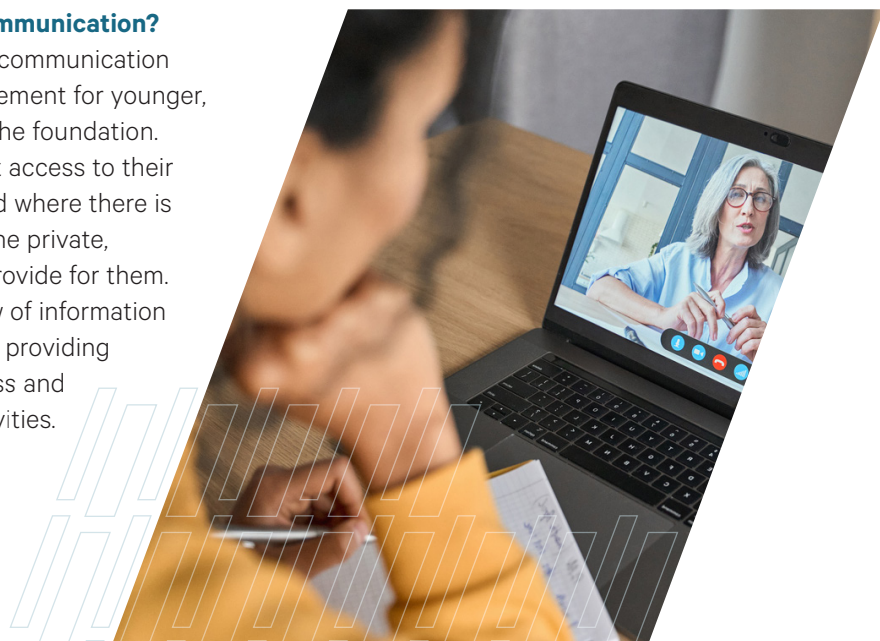
So how do you deal with these transitions?

While there are no pat answers, there are excellent questions to help you find the right answers. That's where we can help. Based on over a decade of experience supporting over 2,000 client foundations, we've come up with pertinent discussion points for each of these common transitions. Here's what you might want to consider at each juncture.

Geographic Dispersion of Family Members

As children and grandchildren grow up and move away to different corners of the country or even around the globe, maintaining a viable, effective foundation depends on maintaining family engagement. The foundation will need to ask the following questions to define (or reaffirm) a workable mission that reflects the collective interests and passions of the dispersed family board:

- **Should we strictly maintain our original scope and intent?** Under this scenario, the dispersed members could take less of an active role while those family members still based in the home community would take the lead. An advantage to this approach is that those family members who choose to serve on the board are fully committed; the obvious disadvantage is that it necessitates letting go of the vision of the foundation as a unifying family enterprise.
- **Should we chart a new direction?** Geographic dispersal of family members may occasion the need to develop a secondary focus that is not regionally specific. Alternatively, the foundation might expand its existing programs to where the board members now live. Expanding the foundation's programs to new locations could help inform strategies in the original target community.
- **Should we permit discretionary grants?** Discretionary grants can keep family members interested in the foundation's work by providing an opportunity to grant in their home communities or to programs outside the foundation's primary focus. A key advantage of allowing discretionary grantmaking is that it enables the foundation to extend its reach, contacts, and resources. However, discretionary grants tend to take up increasingly more of the foundation's funds over time, and could eventually necessitate the foundation to scale back support of its core mission.
- **How can we enhance our internal communication?**
Technology can help a board facilitate communication and collaboration, and can be an inducement for younger, tech-savvy members to participate in the foundation. Foundation Source clients have instant access to their foundations from anywhere in the world where there is Internet connectivity by logging in to the private, password-protected website that we provide for them. Our online capability facilitates the flow of information across multiple locales and time zones, providing foundation members with instant access and total transparency into foundation activities.



Moving from Founder-Led to Family-Centered

When the founder is no longer capable of leading the foundation, the board might be ill-prepared to move forward. In many cases, even though there are other family members who serve on the board, they may be accustomed to deferring to the founder's vision and way of doing business. Without the founder to drive the agenda, the remaining board members are forced to work in a more collaborative manner. To keep the foundation on track, you will need to ask:



- **Is the founder's original philanthropic intent "written in stone" or can we modify it to meet changing circumstances?** To answer this question, it's best to hold a retreat that involves all parties to discuss the next iteration of the foundation. This could be the ideal time to review the foundation's core mission and evaluate its current strengths, weaknesses, opportunities, and challenges.
- **How can we best work together?** When the founder was alive, he or she may have called the shots. Now, everyone's perspective must be taken into consideration. To avoid becoming derailed by unproductive family dynamics, the foundation will need to develop new rules of engagement, including formal policies and procedures that ensure family members do not step on each other's toes or work at cross purposes.
- **What additional assistance do we need?** During a time of transition, some foundations look outside of the family for new talent that meets important needs, such as legal expertise or special knowledge of a proposed funding area. Some foundations will even decide to hire an executive director. To better distribute the workload, some foundations invite close family friends, advisors, or business associates to take on additional tasks. To keep everyone's eyes on the mission, others outsource these needs to private foundation specialists, like Foundation Source. We handle the foundation's administrative, tax, and legal burdens, so members can focus on mission.
- **Do we need to invest in board training and skill development?** To minimize transition deficits, successors may need training and competence-building. To develop a comprehensive board education plan, analyze the type of information board members need to be effective and make sound decisions.

MAINTAINING A VIABLE, EFFECTIVE
FOUNDATION DEPENDS ON MAINTAINING
FAMILY ENGAGEMENT.



Family Growth

When the founder established the “family foundation,” eligibility requirements were probably abundantly clear. However, as the family grows and changes through marriage, births, adoptions, divorce, re-marriages, etc., questions arise.

- **How do we define “family”?** Do spouses qualify for board membership? In the event of divorce, are they expected to resign, or do they continue to serve? Do step-children have the same standing as direct descendants? What about children from a former marriage?
- **What are the implications for governance?** If foundation membership swells beyond original expectations, there are both positive and negative repercussions. Although the foundation’s bandwidth might improve (the saying, “many hands make light work,” comes to mind), it will also take more of an effort to coordinate everyone’s efforts. Moreover, inviting more perspectives and opinions might lead to squabbles that impair the foundation’s efficacy (“too many cooks spoil the broth”). For these reasons, even foundations that have plenty of manpower look for ways to utilize their members’ time more effectively.
- **What are the implications for grantmaking?** When more people are controlling the disbursement of the grant funds, it might be difficult to please everyone—let alone arrive at some degree of consensus. And, if the foundation allows discretionary grantmaking, dividing the pot among a larger number of family members means everyone will have less to give away. To address these conundrums, the foundation will need to come to agreement on its decision-making model. Will grantmaking decisions be made by a single leader, majority vote, or consensus? If the foundation historically did not allow discretionary grantmaking, will that change? If so, what percentage of its budget will be allocated to programmatic and discretionary grants?

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Retirement of a Trusted Family Advisor or Key Staff Member

Many foundation boards worry that operations will be crippled by the departure of a long-time foundation advisor or staff member. Whether it's an executive director, accountant, attorney, or administrative assistant, the expertise and familiarity gained by performing a key role year after year seems almost impossible to replace. Here are some considerations as you determine how to meet the foundation's needs going forward:

- **What are our available options?** Before you rush to find a replacement for the advisor or staff member, take the time to assess the foundation's current needs and gaps in skills. After determining the type of support you need, research the various available staffing options, which could include redeploying internal talent, hiring a salaried employee, or outsourcing some of these functions to a foundation management firm.
- **Do we have untapped internal talent?** Some foundations use this period to encourage members to take on new responsibilities, such as undertaking due diligence review of grantees. When members try out new roles during a period of transition, the results can reveal a wealth of information about family members' level of interest and potential to lead the foundation in new capacities.



IT MAY SEEM IMPOSSIBLE TO REPLACE A KEY ADVISOR OR STAFF MEMBER, BUT ASSESSING THE FOUNDATION'S CURRENT NEEDS ALONG WITH AVAILABLE RESOURCES MAY REVEAL VIABLE SOLUTIONS.



Bringing the Next Generation Onto the Foundation

To ensure the future of the foundation, there are two necessary conditions: The older generation must be willing to give up some control, and the next generation must be both enthusiastic about the foundation's mission and prepared to advance it. Accommodating the needs and interests of both constituencies can challenge the equilibrium and efficacy of the foundation. Younger members can reinvigorate the foundation, but their creativity and new ideas must be grounded in an understanding of the foundation's legacy. You can assess your foundation's next-generation engagement efforts with these questions:

- **Should board membership be assumed or earned?** The process by which new board members are invited is very important in cultivating enthusiasm. Like most of us, young people tend to prize that which is difficult to win. That's why many families wait until specific milestones have been achieved, like attending a specified number of board meetings or volunteering a certain number of hours, before inviting a young person to join the board. Whether board membership is earned based on ability, interest, or commitment, or simply conferred when the young person reaches a specific age, celebrate it as an important event that the next generation eagerly anticipates.
- **Are we open to trying new philanthropic strategies?** With "philanthropreneurs" such as Mark Zuckerberg and Bill Gates as their models, many next-generation foundation members are inspired by an entrepreneurial approach to giving. If the foundation has always made straightforward grants to public charities, new approaches, such as program-related investments, grants to individuals, and direct charitable activities might fire their imagination and enthusiasm. Because Foundation Source supports these and other advanced giving strategies, our clients are able to experiment with new grantmaking techniques for accomplishing their missions without exposing themselves to compliance violations.



- **Do we provide opportunities to practice informed grantmaking?** You can teach the basics of grantmaking, including how to find and vet grantees, by encouraging children to shadow board members. Older children might even be allowed to do some supervised grantmaking of their own. Foundation Source clients use our online Grant Certificates to enable young people not officially on the foundation to make grants up to a specified limit to organizations of their choice. And, to introduce teens to board service, many foundations establish a junior board with its own projects, site visits, and meetings. Some junior boards are given their own funds and permitted to develop and define their own mission; others are asked to present their grant recommendations to the foundation board for final approval. Either way, this is a wonderful way to introduce the next generation to the foundation's processes for making its funding decisions.
- **Should experienced board members serve as mentors?** To prepare the next generation for board duties, many families institute an extended apprenticeship program, pairing young people with more experienced board members to act as mentors. The mentors can teach their successors-in-training about the foundation and its work while helping them to explore how their unique contributions can enliven and invigorate the foundation.
- **Are we engaging them on the right subject?** Don't assume that grantmaking is the only topic of interest to new members. Very often, young adults are also interested in the foundation's finances. (Impact investing is especially popular right now.) Letting young adults see how assets are managed and talking to them about the board's fiscal goals can be powerful tools for engagement as well as an entry point for teaching financial basics.
- **How are we engaging the passions of our younger members?** Engagement needn't be a one-way street. Although you certainly want younger members to understand and commit to the core mission of the foundation, providing a small amount of money in the form of discretionary funds offers the opportunity for young adults to connect grantmaking to their own interests. Having their own funds to contribute not only teaches them how to make grants, but also generates new program ideas for the foundation. Foundation Source makes discretionary granting easy. Young people can make grants online from any locale up to their allotted amount. As soon as they've reached their discretionary limit, they're automatically prevented from granting any more.

YOUNGER MEMBERS CAN REINVIGORATE THE FOUNDATION, BUT THEIR IDEAS MUST BE GROUNDED IN AN UNDERSTANDING OF THE FOUNDATION'S LEGACY.



Sudden Growth of Foundation Assets

When a foundation experiences rapid growth, such as when it becomes the beneficiary of a bequest or upon the sale of a family business, the amount that the foundation is required to distribute each year will also grow. Although the increased payout requirement does not take effect until the completion of the next fiscal year, the foundation will need to bring its grantmaking and operations in line with its larger endowment. To do so in an organized fashion, the board will need to answer these questions:

- **What do we want to accomplish as a foundation?** This is an ideal moment to reflect on the foundation's history and perhaps dream a little bigger. To ground your aspirations and test their feasibility, you may want to convene funders who are already working in your new areas of interest.
- **How do we expand our scope?** Some foundations choose to deepen their areas of interest. For example, a foundation that focuses on housing the homeless might decide to direct more funding to the root causes of the problem. To see where the foundation would get the biggest return for its grant dollars, you might want to hire an outside expert to undertake a "field scan" to reveal who else is working on the issue, their successes and failures, gaps in funding, and what is known/unknown about the problem.
- **Do we want to start accepting external requests for support?** To meet an increased distribution requirement, a foundation that formerly did not consider outside requests for funding may decide to open up its process to a wider audience. Developing funding guidelines and a formal application process enable foundation members to receive ideas from a wider range of organizations.
- **How will we increase capacity without adding too much overhead?** More assets and increased grantmaking may necessitate more work than volunteer board members can undertake. If the workload becomes onerous, consider entrusting the administration to a foundation management company. Outsourcing can reduce busywork, allowing everyone on the foundation to spend more time where it counts—on effective, innovative philanthropy.

**YOU MIGHT WANT TO HIRE
AN OUTSIDE EXPERT TO
UNDERTAKE A "FIELD SCAN"
IN YOUR PROPOSED AREA
OF INTEREST.**



We Can Help

No matter what your foundation's turning point, Foundation Source has the resources and experience to support it. We've brought together the services of attorneys, philanthropic advisors, tax experts, foundation operations specialists, and client advisors all under one roof, and coordinated them so you can get everything you need to manage your foundation in just one phone call.

And because we adapt our services to fit your evolving needs, you can count on your partnership with Foundation Source to last for years to come. As you evolve and change, you'll never misplace key data, lose momentum, or endure growing pains during transitions. Whatever comes, we're a constant, steadying presence that can help your foundation maintain its efficacy throughout its life cycle.

1 Contact Foundation Source

Once you have identified a prospect, contact your regional Foundation Source Managing Director, or call 800.839.0054. We'll help you evaluate the client's needs, determine what services are appropriate, create a custom proposal, and outline next steps.

2 Schedule a Follow-up Meeting

You may want to schedule a follow-up meeting to introduce Foundation Source to the client or prospect. We'll work closely with you on any required follow-up activities.

3 Complete Our Services Agreement

Once there is interest in moving forward, we'll prepare an agreement for the client's execution. We'll work with you and the client to get the foundation up and running on our platform.



Reach out to your regional Foundation Source Managing Director, or call **800.839.0054**

ABOUT FOUNDATION SOURCE

Foundation Source **empowers people and companies to create a better world** through philanthropy. As the nation's largest provider of foundation management services, we're a trusted source for philanthropic expertise. We invest in industry-leading technology for private foundations and offer a configurable suite of administrative, compliance, tax and advisory solutions that meet you where you are in your philanthropic journey.

For more than two decades, we've worked with individuals, families, boards and professional advisors to preserve legacies and make giving easier. Today we are proud to support **more than 2,000 unique foundations** and have facilitated over **\$10 billion in charitable aid**. With a 98% retention rate, we are honored to have earned the trust and loyalty of our clients.

HAVE A QUESTION?

Call 800.839.0054 or send us an email at info@foundationsource.com.

www.foundationsource.com

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