

## Passing Down the Foundation: How to help clients ensure future generations are prepared and successful

Bonnie B. Hartley, Ph.D., and Michael T. Hartley, CFP®, AAMS

An earlier version of this article originally appeared in *Trusts & Estates* (April 2008)

Some wealth owners set up charitable foundations to keep their families together after mom and dad die. But too often these entities exacerbate or even create divisions within the family. Also, family members can have conflicting visions of the foundation's role. Ask clients to think twice before establishing a family foundation solely for the purpose of family unity. If a family decides to proceed, here's how to help them avoid some pitfalls—particularly when it's time for the next generation to step in.

First, it's essential that the children be trained for their responsibilities in the foundation. Get them involved in creating the necessary transition and continuity plans. Sure, your clients probably talk about philanthropy with their children, as did 70.3 percent of 1400 high net-worth households surveyed by the Center on Philanthropy at Indiana University in 2005.<sup>1</sup> But too often they stop there. The same survey revealed that only 35.2 percent allowed children to participate in decisions, 23.4 percent established criteria for children's participation and 18.8 percent gave children funds for philanthropic distribution.

While many foundations these days aren't meant to outlive their founders, families who want to perpetuate their legacies must prepare the next generation as part of their transition and continuity plans.<sup>2</sup> To that end, there are three essential steps:

1. Create clear goals for the family foundation, including its philanthropic emphasis and time horizon as well as its governance and administration.
2. Develop a transition and continuity plan that addresses the impact of both unexpected and expected change, with input from the foundation's board, its advisors and the next generation of potential board members and/or trustees.
3. Implement the transition and continuity plan and adapt it as needed.

Let's examine these three steps using a hypothetical: the case of Deborah.<sup>3</sup> After the recent death of her entrepreneurial father, Deborah inherited significant wealth and was appointed to her family foundation's board of directors. Deborah, age 32, is the older of two children, and is an unmarried elementary school teacher. Her brother Luke, age 30, serves in the military, is married, has two young children, and shows little interest in the foundation. Deborah, like her parents and grandparents, has a strong commitment to giving back to her community, and has been active in small community organizations, primarily in a fundraising capacity. But she knows next to nothing about the workings of a foundation.

**Create clear goals for the foundation.** Deborah is surprised to learn that although her family foundation has a well-defined vision and mission, it lacks specific goals.

Its vision is “to improve the educational opportunities for underprivileged children of migrant workers in our county.”

The mission describes how the board plans to achieve this goal, for example, “by providing bilingual reading materials and tutors to the schools they attend and directly to the children and their families.”

Deborah finds that the vision and mission reflect her values, even though she had no input in their development. That’s lucky for her parents. If Deborah didn’t embrace the foundation’s vision and mission, she might have been an unenthusiastic participant in its future.

Of course, there are lots of ways the foundation could pursue this vision and mission statement. Deborah’s parents made decisions based on their knowledge of community needs. Creating more specific goals, such as “underwriting a project to identify the types of reading materials that are available and appropriate for various ages and reading levels” would help to ensure the foundation creates the legacy her parents desire. Luckily, Deborah’s mother is still alive, so Deborah can work with her and the other trustees to define specific goals and action plans.

A foundation without a complete set of goals is like a ship without a helmsman: It can easily run aground. Deborah and the other trustees should establish goals for such matters as: time horizons for accomplishing the stated goals; how long the foundation should exist; the transition of foundation leadership (both planned and in response to unexpected events); as well as other governance and administrative issues that increasingly receive scrutiny from the Internal Revenue Service (for example, the proposed IRS changes to Form 990.)

Because Deborah’s father left significant funds to the foundation and because Deborah is joining the board, this is a good time to review the vision, mission and goals as part of a strategic planning retreat. This retreat could serve as Deborah’s first transition and continuity training. Ideally, Deborah would have been introduced earlier to her family foundation’s decision-making process. But the next generation often gets thrown into the middle of the story. The foundation’s transition and continuity plan will be part of the broader strategic management plan developed at the retreat. At least Deborah’s successors won’t have to deal with the same challenges associated with the foundation’s poor succession and continuity planning for the next generation, its vague mission and its lack of protocols for managing risk and decision-making.

**Develop a transition and continuity plan.** Before the foundation’s board can create a transition and continuity plan, it must determine the foundation’s expected lifespan. Unlike many entrepreneurial couples, Deborah’s parents saw the foundation as part of a multi-generational legacy. Although Deborah doesn’t yet have children, her parents funded the foundation with the hope that it will continue for generations.

As Deborah and other board members prepare for their strategic retreat, they develop agenda items focused on managing this transition:

**1. Clarify criteria for board membership and establish a rotation schedule for board members in order to broaden and deepen the family's philanthropic activities and to address changes in family representation.** Deborah has asked who can serve on the board: her husband and children (if she marries and has children)? Her mother's new husband (if she remarries)? Luke (or his wife and children)? Any cousins? Any future, adopted children? There are no protocols for family member eligibility. Rotation helps manage the size of the board as the number of family branches and eligible family members increase. Board membership also expands the extended family's community service experience.

**2. Identify protocol for selecting successor candidates, including non-family board members.** The board needs to discover emerging leaders in the community and in the family, to review governing documents, and, in families larger than Deborah's, to assess family dynamics regarding transition and roles.

**3. Conduct skills and interests assessments for the current board and its successor candidates.** Deborah is committed to learning how the foundation works and what it takes to be a responsible, effective trustee and board member. By assessing her own—and other board members'—skills and interests, she can develop a learning path for herself that will serve as a model for ongoing successor training and development.

**4. Create an implementation timeline.** Given that Deborah works full time, she's concerned about how much time her transition and continuity training will take and how she'll fit it into her life. A timeline can break the training into manageable chunks.

**Implement the transition and continuity plan and adapt it over time.** Plans do not implement themselves. The board must list the tasks necessary for transition and continuity. It must also assign those tasks to people or firms. Each task should have a deadline and instructions for reporting progress and completion. Some boards use project management software or a designated project coordinator on the board to ensure the smooth implementation and timely completion of each project. As a teacher, Deborah already has project and time management skills, so she might learn to use the software.

A transition and continuity project such as Deborah's may take a year or more to complete. It involves coordinating busy family schedules and responding to family members. Some family members may be outright resistant, like Deborah's brother Luke, who doesn't want to participate in the foundation at all.

Transition planning also means anticipating or making changes in leadership. This is often a delicate, emotional topic. In Deborah's case, one question is whether her mother should replace Deborah's father as chair of the board; another is how to pick future chairs. There is not even a job description yet for the position. Crafting such a description could be a good project for Deborah and her mother to undertake together

because it will help clarify the chair's responsibilities. A chair's responsibilities can include:

1. overseeing the process that ensures that information returns are filed in a timely manner with the Internal Revenue Service and with any state that so requires it;
2. ensuring that investments are managed according to prudent fiduciary standards;
3. convening meetings to ensure that the foundation's vision and mission are being implemented;
4. ensuring there is sufficient transparency for all stakeholders;
5. ensuring the foundation has a system to vet projects and grantees so they both support the vision and mission and are legally appropriate, for example, checking to ensure that they have maintained their 501(c)(3) status;
6. ensuring that the bylaws and operating policies adopted by the board are followed.

Of course, not all contingencies can be anticipated. A strategic board plans for unforeseen circumstances that could demand a change in tactics. Unexpected changes may be external, such as changes in tax codes or the emergence of new issues and challenges that the board would like to address. Or, they may be internal, such as the death or disability of a board member or changes in a major goal.

Foundations are stronger when they have a Plan B, or at least a process that quickly recognizes when a Plan B is needed. With that in mind, for example, the board may ask Deborah to develop a "fire drill" or contingency plan to address the sudden death or disability of a board member. She also may be asked to chair a task force that identifies the variables that a fire drill would uncover.

Transition and continuity planning benefit the family as well as the foundation. The foundation's mission and vision are more likely to endure and achieve their desired impact. Preparing family members for their philanthropic roles teaches them new skills, transfers wisdom from one generation to the next, and benefits their lives in many ways beyond their foundation and philanthropic activities.

***Interested in learning more from Bonnie and Mike?***

*Sign up for their free e-newsletter at the bottom of the page at <http://thehartleygroup.org/> or contact them at 941.480.1119. The Hartley Group can help you manage the legacy of your family or your clients' families.*

<sup>1</sup> Bank of America Study of High-Net-Worth Philanthropy: Portraits of Donors, researched and written by The Center on Philanthropy at Indiana University, December 2007. This survey defined "high net-worth" as having annual income of \$200,000 plus or net assets of \$1 million plus; 80 percent of respondents had net assets of \$2 million plus.

<sup>2</sup> In *Generations of Giving*, Kelin E. Gersick notes that some family foundations "take the preparation of their next generation very seriously, but most avoid or delay serious efforts toward successor development." (Lexington Books, Lanham, Md., 2006), p. 35.

---

<sup>3</sup> Deborah is a composite adapted from a Fire Drill in Bonnie Brown Hartley's [\*Unexpected Wealth\*](#) (Cambio Press, Venice, Fla., 2006), p. 6. The author, Bonnie Hartley, illustrates the challenges faced by inheritors who must acquire new skills and responsibility for which they are only partially prepared.