

FAMILY FOUNDATION *Advisor*

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**FAMILY FOUNDATION
Advisor**

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Advising the Family Foundation: Six Case Studies

By Mark Neithercut*

Editor's Note: The Case Study method was pioneered by Harvard Law School and Harvard Business School as a practical way of exposing students to the real world decisions they will face as managers or advisors. Mark Neithercut, founder and principal of Neithercut Philanthropy Advisors and a contributor to Family Foundation Advisor, developed a series of typical cases from his firm's practice as an analytical exercise in foundation decision-making. The scenarios are real, and while the final outcomes are certainly of interest, the structure and methods used to arrive at a decision are what make them especially useful. We asked Mark if we could share them with our readers, and he kindly agreed.

Case Study: Should I Make This Gift?

A donor is asked to make a lead gift to create a new university research center

Issue:

Would a \$2 million startup gift pave the way for a new \$25 million research center?

Project Description:

To give or not to give? It's a question faced by many wealthy individuals who are looking to make a positive impact on causes they care about. Ensuring that one's gift achieves its intended outcome, however, requires much more than simply writing a check.

We helped a client tackle these issues head-on when he asked us to analyze a \$2 million request he received from a major university in Ohio. The requested funds were to be used to support a new research center dedicated to a life-threatening disease. Our client, who had lost a son to this

disease, was eager to support the cause, but asked us to investigate before he formally agreed.

We visited the school and met with three senior staff members to learn about the project and confirm the details that had been described to us by the client. The details that emerged during the visit were different than what our client had understood. First, the funds were going to be split into two separate projects: the first \$1 million was to fund the construction of a new hospital, and the second \$1 million was to fund a research program focused on the disease of interest, but not to launch a new research center dedicated to the disease, which was our client's greatest interest.

University staff assured us that they were committed to launching the \$25 million research center. We asked if the university had formally approved the establishment of the new center, whether there was a formal plan to raise the additional \$24 million for the center, and if there was a staffing plan, among other pertinent issues. We learned that none these actions had occurred, nor had any formal decisions been made regarding the launch of the new research center.

Result:

Our client chose not to make a gift. We were able to determine that the use of the gift wasn't aligned with our client's interests, and we were able to avoid a significant misunderstanding and future unhappiness.

Case Study: Death of a Founder

The founder ran the foundation as her personal charitable checkbook for many

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years, but she died unexpectedly and the board must now work together to run the foundation.

Issue:

How does a foundation transition to a group decision-making process?

Project Description:

The transition from individual leadership to a foundation managed by a group of board members can be the most challenging period of a foundation's life. The founder typically knows what he or she wants to do, and does it. If a board is in place, its members are pleased to support the founder's leadership because it is he or she who created the wealth. But after the passing of the founder, the board is typically faced with a significant change in the method by which it operates. The danger is that the foundation can be pulled in multiple directions, fueled by the individual interests of the board.

In this case study, the founder's unexpected passing left the foundation with no direction: no mission statement, no statement of values, no grantmaking

guidelines, and no application procedures. To complicate matters, the foundation had a required payout that year of \$50 million. The board of directors was composed of a small group of family members and friends, none of whom had any experience in philanthropy.

The details that emerged during the visit were different than what our client had understood.

Further, there were strong differences among the board of directors regarding the direction of the foundation. The board was served by an excellent team of attorneys, but relying on the lawyers to lead the foundation forward wasn't practical and would have been expensive, given the hourly rates. The board members were stymied; they weren't sure how to move forward, especially with a large payout hovering over them.

Our firm was interviewed by the board of directors and charged with putting in

place the necessary building blocks for the foundation to move forward. Seeking to establish unanimity and harmony, we interviewed each board member to establish:

- The goals for the foundation
- The values of the family
- The charitable interests of the founder and the family, and
- Potential grantmaking areas of interest.

The purpose of this exercise wasn't only to gather this information, but also to ensure that the views of all board members were heard and considered. Despite their differences, there were shared interests and values among the board members, and there was a shared desire to honor the interests of the founder. As a result of this interview process, we were able to create both a mission statement and a values statement for the foundation.

With a mission statement in place, the decision-making process of the board was considerably eased and shortened. Some projects fit the mission well, and others did not. As a result, the board

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was able to meet its \$50 million payout requirement that year, with unanimous approval of every grant. Having agreed on a common purpose for the foundation, the board members were able to put their many differences behind them.

Result:

Despite little direction from the founder, new mission and values statements allowed the board to put its differences aside and unanimously approve a large number of grants.

Case Study: Pitfalls of a Naming Gift

A donor is asked for a major gift to create and name a gallery at a major museum.

visit and found that the museum had not budgeted for educational programs in the new gallery, nor had it budgeted for annual operating expenses and the occasional “refreshing” the gallery would require over its planned 25-year life.

In the end, we encouraged the museum to develop a more realistic budget that would include both the gallery’s maintenance and any educational programs that would be required. If the gallery would be associated with our client’s name, we believed it was important to ensure that it wouldn’t fall into disrepair or fail to operate in a high-quality manner. Under our guidance, a new budget was prepared that was more feasible, and the project was better positioned for success. There was one hitch: The cost

Project Description:

Until recently, Mom and Dad used their family foundation for their personal giving, which was roughly \$250,000 a year. They met with their accountant a few times a year and directed the accountant to mail checks to their favorite charities. Now, because their business has been sold, the foundation has assets of \$50 million — which requires annual grants of \$2.5 million. The old ways of doing things couldn’t be easily expanded to handle this significant increase in grantmaking, and the family didn’t know how to proceed. “We need structure” explained one of the family members who serves on the foundation’s board of directors.

The foundation needed professional support and didn’t know where to find it. It had several options. First, it could hire its own staff, although given its size this might only be a part-time person. The family business had been sold; otherwise, perhaps the foundation could be run there. Another option was that the foundation could utilize the services of a bank, law firm, or accountancy firm, some of which provide foundation management services. In the end, the foundation chose to outsource the management of its operations to our firm.

Because some of the board members had no philanthropy experience, the family asked us to establish basic governance policies and procedures. Working with the board, we:

- Clarified the role of directors and their legal responsibilities
- Adopted conflict of interest and confidentiality policies
- Created a website and email address for the foundation, and
- Published application guidelines.

With that in place, the board requested help in making grants that were more impactful. Although the founders were still involved, and there was a basic mission statement in place, there was still a lack of clarity regarding what the foundation hoped to achieve. As a result, we worked with

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The founder’s unexpected passing left the foundation with no direction: no mission statement, no grantmaking guidelines, and no application procedures. To complicate matters, the foundation had a required payout that year of \$50 million.

Issue:

Will the gallery meet the high expectations of the donor?

Project Description:

A client of ours was approached by a museum, which asked him for a donation to support the construction of a new gallery. If our client was inclined to make the gift, the museum promised to name the gallery after him. The client, an enthusiast of the subject matter to be displayed in the gallery, was eager to proceed with the donation but asked us for guidance before doing so.

We called the museum and spoke directly with its executive director to learn about the organization’s plans for the gallery. Among other things, we inquired about the museum’s budget for building out and operating the gallery. In reviewing the budget, we had a concern that the budget didn’t seem to include all of the project’s costs. We conducted a site

of the project had tripled. Still, our client was thrilled at the significantly improved project that would bear his name, and he gladly made a much larger gift.

Our client attended the grand opening of the gallery, which was a huge success. As a result of our research and counsel, our client found great joy and fulfillment in this charitable gift.

Result:

Our client’s gift was larger than the original request, but the project was improved and he was enormously pleased with the results.

Case Study: We Need Structure

A successful family business is sold and provides a major cash infusion to the family’s foundation

Issue:

How does the family ramp up operations to handle the increased responsibilities of a suddenly much larger foundation?

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the board to clarify their interests. The mission statement stressed the foundation's interest in both Jewish traditions and the environment. Of course, these subject areas are rather broad, so we worked with the board to better understand what they wished to support and what they wanted to accomplish. Through this process, we were able to clarify their interests. For example, we learned that they had an interest in Jewish summer camps.

Once the foundation's interests were clarified, we sought out new applicants that fit its mission statement. In this process, we:

- Met with potential applicants and conducted site visits
- Conducted due diligence and an analysis of each applicant and proposed project, and
- Wrote detailed assessments of each application for board consideration and action.

As applications began to flow, we established a regular schedule of board meetings where the members could review each application and determine the appropriate disposition. Once the board made its decisions, we then would:

- Notify each grantee and those applicants that were declined
- Prepare grant award letters and contracts for the president's signature
- Arrange for grant payments according to the schedule approved by the board, and
- Monitor the grants to ensure that the projects are proceeding as expected. In addition, we work with grantees

to adjust the grants when unexpected events require changes.

After six months, the foundation emerged as an organized philanthropic enterprise with systems and procedures that achieve the interests of the family while incorporating all the best practices of modern foundation management.

Result:

By outsourcing operations to our firm, the foundation immediately had a highly experienced and professional staff capable of managing all its operations.

Case Study: Can Our Children Run It?

The parents' estate plan calls for major funding of a family foundation

foundation if the children could work together to manage the foundation.

We were contacted by a family office representative to see if we might be able to help this family.

In our assessment, the family needed to establish a mission statement that would give direction to the work of the foundation. If the parents and the children could work together and reach a consensus regarding the purpose of the foundation, the parents would likely agree to fund the organization.

In addition, there were questions about how the foundation would operate: How would it be staffed? How would decisions be made? In a sense, who would control the foundation? Thus, the family also needed to establish a formal grantmaking and decision-making process that would give comfort to all involved as to how the foundation would function.

Mission statement. To develop a sense of purpose or direction, we interviewed each family member to determine the patterns of past giving and the family's values. Through this process, we were able to identify common interests and ideals. With this information, we were able to compose a mission statement that both honored the founders' interests as well as those of the next generation. We met with the foundation's board and, with some adjustments, the organization adopted its first mission statement.

Grantmaking Process. A sense of purpose was a good start, but how would applications be solicited? Who would do the due diligence? How would decisions be made? We worked directly with the board members to develop a process by which applications would be invited and processed. One of the children had experience with nonprofits, and it was agreed that she would serve as the contact person for the foundation. We developed a flow chart to help the family understand how applications would be handled and what they should do if they were approached for a grant. Further, this process made it clear that no decisions would be made without a formal board meeting, when all members would have

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if the children can work together and agree on a purpose.

Issue:

If the children have diverse interests and live far from one another, can they come together and run the foundation once their parents are gone?

Project Description:

The elderly parents had been very successful in business and had set aside significant funds to be used for charitable purposes upon their demise. These funds might be distributed to local charities, or they could flow into a family

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a vote — and unanimity or consensus would be sought in every case.

As a result, the parents made an initial contribution to the foundation of \$2 million, with the expectation that \$50 million would be forthcoming should things go well.

Result:

Over a period of nine months, we helped this family find a focus for its giving that all members endorsed, and we helped establish operating procedures that will allow it to function efficiently and effectively going forward. Thus, for the first time, the family had a sense of how it would work together cooperatively to fulfill its charitable interests.

Case Study: Procedures Up To Date?

A 50-year-old foundation requests an independent review of operations.

Issue:

Has the foundation kept up with changes in the law and professional best practices, including changes in computing and the internet?

Project Description:

Foundations typically adopt operating procedures in a piecemeal fashion, over time, as conditions seem to require. This can result in a complex web of systems that aren't efficient and

that sometimes ignore important areas of risk and accountability.

One of our clients was a 50-year-old, private foundation run largely by a prestigious law firm. The trustees were meeting the annual payout requirements, but had not given much attention to its operational and administrative practices. The foundation heard about our work for another client and contacted us

***Standards for
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to conduct a review of its operations and grantmaking procedures.

We reviewed the entire history of the foundation, including looking at all the board meeting minutes and sampling 50 years of grant files. In our review, we looked for ways to increase efficiency and reduce costs. Moreover, we looked for ways the foundation might reduce risk and improve accountability.

During the three-month review, we found that the foundation's operational practices were outdated and inefficient. The industry standards for

professionalism and regulatory compliance have changed significantly over the years, and the foundation hadn't kept up with these changes. In the end, we produced a 50-page report with a number of recommendations.

The client was both surprised and pleased by our review and resulting recommendations. As a result, we were hired to work with the firm's paralegal staff to implement the many recommendations.

For example, we recommended that the foundation adopt a formal investment and spending policy, implement the use of grant contracts, and require better financial reporting on its grants. We also noted the benefits of implementing a low-cost database and a basic website to save staff time. Additional recommendations included providing direction on due diligence and tools for meeting the federal anti-terrorism reporting requirements.

Result:

The foundation agreed that our suggestions enhanced efficiency, improved effectiveness, and saved costs while managing legal and regulatory risks.

Mark E. Neithercut is founder and principal of Neithercut Philanthropy Advisors and has more than 25 years of experience working with foundations and individual donors to increase the impact and effectiveness of their philanthropy. NPA provides a back-office, outsourced solution for small- and medium-sized foundations and also serves as an advisor to foundations to help them clarify their mission, develop sound grantmaking strategies, and improve their administrative operations. ■



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