

Stewardship Principles for Family Foundations

Family philanthropy is “a unifying and ennobling odyssey for families with the means and the determination to make a difference in the world around them.”

Paul N. Ylvisaker

Through their philanthropy, families aspire to achieve a lasting and positive impact on society. Families’ resources extend well beyond money to include leadership and reputation, time and talent, passion and commitment.

Families strive to be responsible stewards of their foundation resources, to uphold the public trust and to practice their philanthropy in ways that reflect fundamental values, including honesty, integrity, fairness and trust. As private entities operating for public purposes, family foundations must comply with federal, state and local law – but most go further.

These Stewardship Principles and Practice Options to Strengthen Performance describe how family foundations can reflect these fundamental values in their board governance, management and grantmaking.

HOW TO USE THE STEWARDSHIP PRINCIPLES FOR FAMILY FOUNDATIONS

The Stewardship Principles and the Practice Options to Strengthen Performance are goals toward which to strive. They correspond to an array of philosophical and practical issues faced by all family foundations. With this document as a framework, family foundation boards and staff can discuss issues *before* they arise, enabling them to proactively develop thoughtful policy and practice that improve over time.

Family foundations can take many forms. Thus, the Practice Options to Strengthen Performance are not checklists. The degree to which a foundation can adopt individual Practice Options ptions will depend on the following:

- Where it is in its life cycle
- The requirements and restrictions in its governing documents
- Its asset size
- Whether it is staffed or unstaffed
- Cost effectiveness
- Whether the board is composed entirely of family members or includes others.

This is not a static undertaking. As the foundation evolves, so too should the choice of Practice Options to Strengthen Performance. The most significant, ongoing reward will accrue to those foundations that employ these principles with consideration, thoughtfulness and commitment, and with consistent evaluation and appropriate revision.

Adopted by the Committee on Family Foundations, September 2004

GOVERNANCE

I. We have a governing board that establishes the mission, guides the operations, oversees the effectiveness and ensures the ethical conduct of the foundation.

Practice Options

- A. Develop and periodically review the foundation's values and mission statement, strategies, program areas and guidelines, goals, annual and multiyear objectives and geographic focus.
- B. Dedicate sufficient human, financial and technological resources to advance the mission.
- C. Plan for leadership continuity.
- D. Assess the relevance and effectiveness of the foundation's grantmaking, board governance, management and investments.

II. Authority is vested in the governing board as a whole, and each member is equipped to advance the foundation's mission.

Practice Options

- A. Identify the desired characteristics of the governing board, including size, composition and member skills and experience; consider diversity and the perspective offered by representatives from outside the family.
- B. Develop bylaws that specify the term length of governing board members; the number of consecutive and/or total terms members may serve; minimum and maximum ages; roles, responsibilities and fiduciary duties; and selection and removal processes.

- C. Conduct business regularly to ensure meaningful interaction, including at least one annual in-person meeting (governing board and staff if any).
- D. Stay on mission; all grants are made within grantmaking guidelines. Exceptions are reviewed by the entire board and do not exceed a maximum dollar cap or percentage of total giving.
- E. Provide comprehensive orientation and training for governing board members.
- F. Provide continuing education on all aspects of foundation governance, including legal, fiduciary and grantmaking issues.

III. We consider multiple strategies to further our mission.

Practice Options

- A. Learn best practice models and compare practices against others in the field.
- B. Consider a range of financial support options that could include general operating, project, capital, research, scholarship, endowment, multiyear and challenge grants, and funds to respond to emergency or other unanticipated needs.
- C. Use program and grant evaluation to improve outcomes.
- D. Share successes, failures and lessons learned from grant and program evaluations internally and externally, as appropriate.
- E. Collaborate with others who fund similar work.

- F. Ensure that staff (if any) is well-qualified and receives ongoing professional development.
- G. Promote foundation board and staff personal giving and volunteerism (bearing in mind potential conflicts of interest).
- H. Provide technical assistance to grantees and other nonprofits.
- I. Invest in ways that further the mission (e.g., program-related investments, micro-credit loans, socially responsible investing and proxy voting/shareholder resolutions).
- J. Convene community leaders, nonprofits and/or other funders doing similar work.
- K. Engage in public policy advocacy as permitted by law.

IV. Our governing board exercises active fiscal oversight.

Practice Options

- A. Know and ensure compliance with fiduciary duties.
- B. Ensure that expenses are reasonable and in proportion to amounts spent on grants and technical assistance.
- C. Expect board members to serve the foundation without compensation, recognizing
 1. that reimbursement of reasonable expenses directly related to board service does not constitute compensation
 2. that board members who perform staff functions may be compensated as staff.

Like all staff, these individuals should be reasonably compensated, document time spent, and have a job description, performance objectives and evaluations.

- D. Confirm that proper due diligence is performed to ensure grantees' fiscal and organizational viability and that grants are used for charitable purposes.
- E. Ensure that the foundation has a written investment policy adequate for its size and complexity that includes investment objectives, asset allocation strategy, spending and/or payout policy and rationale for selecting and evaluating investment managers/advisors.
- F. Establish effective internal controls, systems of checks and balances, and formalized recordkeeping.
- G. Approve an annual budget and assess the foundation's financial performance relative to the approved budget.
- H. Conduct an internal review of foundation compliance with legal, regulatory and financial reporting requirements and provide a summary of the review to board members.
- I. Obtain an external review of the organization's finances (in accordance with asset size) by conducting a financial review, periodic audit or annual audit (for larger foundations).
- J. Establish an audit committee to oversee accounting, financial reporting, compensation practices and the external audit of the foundation.

ETHICS AND ACCOUNTABILITY

V. We recognize and act upon our obligations to multiple stakeholders: the donor and the donor's family, grantees and grantseekers, the public and governmental bodies.

Practice Options

- A. Keep abreast of the self-dealing laws; avoid self-dealing and even the appearance of self-dealing.
- B. Educate the governing board and staff (if any) as to what constitutes conflict of interest:
 1. Document the affiliations or involvement of board members, grantmaking staff and their families with potential grantees, even if the affiliation creates no financial conflict of interest.
 2. Establish and sign annually a written conflict of interest policy that identifies types of conduct or transactions that raise concerns and describes how conflicts or perceived conflicts of interest are resolved.
- C. Incorporate diverse people, perspectives, knowledge and experience into the work:
 1. Access pertinent data, e.g., censuses, regional indicators and studies.
 2. Include subject matter experts or community representatives as speakers at

board meetings, on committees or on advisory groups.

- 3. Appoint board members and employ staff who demonstrate the capacity to understand issues and communicate skillfully across cultural, class and other boundaries.
- 4. Encourage board and staff to be actively involved in the community (bearing in mind potential conflicts of interest) and to bring new or underrepresented perspectives back to the foundation.
- 5. Establish governance policies and operational and grantmaking practices.
- 6. Develop training resources that promote inclusion and reduce discrimination.
- D. Identify and practice the elements of ethical conduct.
- E. Develop a policy to handle good-faith complaints about violations of foundation policy or the conduct of foundation board and staff.

VI. We respect our nonprofit partners' missions and expertise and strive for relationships based on candor, understanding and fairness.

Practice Options

- A. Develop transparent grants management processes:
 - 1. Create clear and complete program guidelines and application procedures (if unsolicited applications are accepted); consider accepting common grant applications.
 - 2. Request only information (pre- and post-grant) that will actually be used in decision making and corresponds appropriately to the size or purpose of the grant.
 - 3. Specify the steps and timing of the review process.
 - 4. Acknowledge grantseeker inquiries and submissions promptly.
 - 5. Use grant agreement letters to outline mutual expectations.
 - 6. Explain rationale for declined grants and give constructive feedback when appropriate.
- B. Conduct site visits when appropriate, guided by the size and purpose of the grant and the impact on the grantee.

- C. Acknowledge and minimize the effects of the imbalance of power in grantee/grantor relationships.
- D. Seek feedback (including anonymous) on foundation performance from current and former grantees and denied applicants.
- E. Respond to and act promptly on complaints.

VII. We welcome public interest and communicate openly.

Practice Options

- A. Make public (online and/or in print) the foundation's board of directors, mission, guidelines, grant process (including whether unsolicited proposals are accepted), finances, procedures, timetable, grantee list with amounts and purpose, etc.
- B. Identify and make public a point of contact for the foundation.
- C. Respond to requests for information promptly and in no more than 30 days.
- D. Prepare and distribute (online or print) an annual report (or letter for small foundations).
- E. Train board and staff to respond to the media, legislators and other audiences.
- F. Develop a proactive strategy for reaching out to the media, legislators and other audiences.

FAMILY LEGACY

VIII. Our governing board respects donor intent and later generations' interests while also considering the demands of a changing world.

Practice Options

Honoring Intent

- A. Encourage living donors to document their intentions, while taking into account the flexibility succeeding generations may need in governing the foundation.
- B. Preserve the foundation's evolution by compiling board docket and grants made.
- C. Invite senior family members to speak to the board.
- D. Collect personal recollections of the foundation through interviews with donor(s) and/or senior board members (audio, video and/or written).
- E. Conduct activities that provide subsequent generations the opportunity to connect with the family/foundation history.
- F. Review founding documents and donor intent or preferences periodically to assess their continued efficacy.

Recognizing Later Generations' Interests

- G. Encourage board members with interests outside the program or geographic guidelines to support them through personal giving.

- H. If not counter-indicated in the establishing documents (e.g., trusts), consider explicitly adding the flexibility to adapt focus areas.
- I. If competing interests hinder the foundation's mission or the family's ties, consider engaging a skilled facilitator to find common ground.

IX. We plan for family leadership continuity.

Practice Options

- A. Develop and implement a succession plan (with input from the family's teens and young adults) to identify, educate and prepare the next generation of family members for future board service.
- B. Inform the broader family of the foundation's work.
- C. Provide avenues for younger family members to learn about and participate in the work of the foundation (or other foundations and/or the nonprofit sector) prior to serving on the board.
- D. Revisit periodically the intended life span of the foundation (perpetual or time-limited).
- E. Employ alternative governance structures or giving vehicles when family leadership is no longer viable or no longer desired.